

OFFICE OF FINANCIAL MANAGEMENT

STATE OF WASHINGTON

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

DECEMBER 2004

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Department of Retirement Systems

All state fiscal personnel



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For the Fiscal Year Ended June 30, 2004*

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## **INTRODUCTORY SECTION**







STATE OF WASHINGTON

## OFFICE OF FINANCIAL MANAGEMENT

*Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0555*

December 20, 2004

**The Honorable Gary Locke, Governor**  
**Citizens of the State**  
**Members of the Fifty-Eighth Legislature**  
State of Washington  
Olympia, Washington 98504

In accordance with Chapter 43.88.027 of the Revised Code of Washington, the Office of Financial Management has prepared this Comprehensive Annual Financial Report (CAFR) of the state of Washington for the fiscal year that ended June 30, 2004. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the state. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and subsidiary accounts of the state. All disclosures necessary to enable the reader to gain an understanding of the state's financial activities have been included.

The report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this transmittal letter. The Financial Section begins with the independent auditor's report and contains management's discussion and analysis (MD&A), government-wide financial statements, fund financial statements, notes to the financial statements, required supplementary information, combining financial statements, and schedules. This letter of transmittal is designed to complement the MD&A, which presents a narrative introduction, overview, and analysis of the financial statements. The Statistical Section includes selected financial, economic, and demographic data.

The state provides a wide range of services. These include education, social, health, transportation, environmental, law, public safety, resource and recreation development, public improvement, and general administrative services. The accompanying report includes all funds and subsidiary accounts of the primary government, the state of Washington as legally defined, as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The determination of "financial accountability" is based on criteria established in Governmental Accounting Standards Board Statement No. 14. Note 1.A to the financial statements explains more fully which organizations are included in the reporting entity.

## **Profile of Washington State**

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The state of Washington was created by an enabling act of Congress in 1889. The state is located on the Pacific Coast in the northwestern corner of the continental United States. Washington comprises 68,139 square miles and currently has a population of 5.8 million. Washington is famous for its scenery of breathtaking beauty and sharp contrasts. On the west side of the state, high mountains rise above coastal waters. The forests of the Olympic Peninsula are among the rainiest places in the world. Washington's coastline has hundreds of bays and inlets that make excellent harbors. In the eastern part of the state, the flat semi-desert land stretches for long distances without a single tree.

Washington's location makes it a gateway for land, sea, and air travel to Alaska and the Pacific Rim countries. Ships from all parts of the world dock at Washington ports. The Boeing Company, a leading producer of commercial airliners and spacecraft, has plants in Auburn, Kent, Renton, Everett, and Spokane. Microsoft, a leader in the computer software industry, makes its home in Redmond. The Weyerhaeuser Company, a major producer of wood and related products, is headquartered in Federal Way. Costco Wholesale Corporation, headquartered in Issaquah, operates an international chain of membership warehouses.

East of the Cascade Mountain Range, farmers raise livestock and wheat on large ranches. Washington leads the nation in apple production. The state produces large amounts of lumber, pulp, paper, and other wood products. The mild moist climate in western Washington makes the region excellent for dairy farming and the production of flower bulbs.

## **Governmental Structure**

As established in the State Constitution, the state consists of three branches of government: the Executive Branch, the Legislative Branch, and the Judicial Branch. The Executive Branch has nine elected officials as follows: the Governor, Lieutenant Governor, Secretary of State, State Treasurer, State Auditor, Attorney General, Superintendent of Public Instruction, Commissioner of Public Lands, and Insurance Commissioner. Forty agency heads are appointed by, and report to, the Governor. Eighty-eight agency heads report to a board appointed in whole or in part by the Governor. The Legislative Branch consists of two legislative bodies: the Senate consisting of 49 members, and the House of Representatives with 98 members. The Judicial Branch consists of the State Supreme Court that is the highest court in the state comprised of nine Justices. Every two years, three Justices are elected for six-year terms. A Chief Justice is chosen from among the most senior Justices.

## **Washington State's Economy and Revenue Outlook**

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Since the economic recovery began in the 4th quarter of 2001, Washington has gained 48,000 jobs, or about 1.8 percent growth. Although the state job recovery has been slow, it has been stronger than that of the U.S., which saw less than 1 percent job growth in that same time period. The state recovery has been aided by a slowing of layoffs in the aerospace industry, the stimulus derived from federal tax cuts and deficit spending, very strong growth in the housing sector due to low interest rates, and an increase in disposable household income from home mortgage refinancing.

The relative strength of the state's recovery reflects the underlying strengths of the state economy, which include a vital export base, the presence of knowledge-based industries such as business,

professional, health, and financial services, and a high quality of life that continues to support strong population growth.

After two years of decline, Washington State's non-farm payroll employment grew by 0.8 percent in Fiscal Year 2004. Personal income grew at a rate of 3.8 percent that fiscal year, a significant improvement over growth rates of 2.6 percent in Fiscal Year 2002 and 2.2 percent in Fiscal Year 2003. Prior to Fiscal Year 2001, Washington's personal income was growing at rates that regularly exceeded 7 percent. The aerospace industry continued its decline into Fiscal Year 2004 with an employment decline of 11.4 percent. Total manufacturing employment declined by 4.5 percent. This extended the trend of the last three consecutive years of employment decline in manufacturing. In Fiscal Year 2004, Washington's unemployment rate receded to 6.9 percent, slightly below the levels of the last two fiscal years. As late as Fiscal Year 2000, the state's unemployment rate was below 5 percent.

Washington's outlook for Fiscal Year 2005 is for a stronger rebound in economic activity. Non-farm payroll employment in Washington is forecast to increase in Fiscal Year 2005 by 2.1 percent, the strongest growth since Fiscal Year 2000. Personal income growth is also predicted to rebound to 5.2 percent in Fiscal Year 2005, more reminiscent of the pre-recession Washington economy. General Fund-State revenues are forecast to grow at a stronger 9.6 percent rate in the 2003-05 Biennium, compared to the decline of 0.6 percent in the 2001-2003 Biennium due to the recession.

### **Economic Condition in Fiscal Year 2004**

Washington's non-farm payroll employment grew by only 0.8 percent in Fiscal Year 2004, but this was a faster rate than the 0.2 percent increase in U.S. non-farm payroll employment. Washington non-farm payroll employment increased by almost 20,000 during Fiscal Year 2004. Personal income in Washington grew somewhat slower than U.S. personal income, 3.8 percent in Washington compared to 4.6 percent for the U.S. Real per capita income growth was up in Washington by 0.8 percent over the same period compared to 1.7 percent for the nation as a whole.

Aerospace employment was a major factor in the year's slow employment growth for Washington. After adding more than 15,000 employees in Fiscal Year 1998, employment in the aerospace industry fell by almost 41,000 in Fiscal Years 1999 through 2003. Aerospace employment continued its decline in Fiscal Year 2004, falling by 8,000. Most other manufacturing industries also continued to decline in Fiscal Year 2004. Manufacturing employment excluding aerospace in Washington declined by 4,300 jobs in Fiscal Year 2004, a reduction of 2.1 percent.

Employment in durable manufacturing other than aerospace fell by 1.5 percent in Fiscal Year 2004 (a decline of 1,800 jobs) while employment in durable manufacturing nationally declined by 3.5 percent. Employment actually increased in several durable manufacturing industries in Washington during Fiscal Year 2004. Employment in electrical equipment, appliances and components grew by 3.1 percent and employment in other transportation equipment (transportation equipment other than aerospace) increased by 7.8 percent. Employment in other durable manufacturing increased by 0.2 percent and employment in wood products rose by 0.3 percent. All other durable manufacturing sectors experienced declining employment. Employment in fabricated metal products decreased by 0.7 percent in Fiscal Year 2004. Machinery manufacturing experienced declining employment at the rate of 0.8 percent during Fiscal Year 2004. The largest percentage declines occurred in the primary metals industry, down 10.3 percent (a decline of 600 jobs), and the computer and electronic products industry, down 8.6 percent (a loss of 2,100 jobs).

Non-durable manufacturing employment in Washington decreased by 2.9 percent in Fiscal Year 2004, a loss of 2,400 jobs. Nationally, non-durable manufacturing employment declined by 3.5 percent. In Washington, all non-durable manufacturing industries experienced employment losses in Fiscal Year 2004. The largest percentage losses in employment occurred in printing, a 6.6 percent decline, and other non-durables, a 4.6 percent loss. Paper and paper products manufacturing employment decreased by 3.5 percent.

Washington's non-manufacturing employment grew by 1.4 percent during Fiscal Year 2004, with construction employment growing by 3 percent, services employment increasing by 1.8 percent, and employment in the financial activities industry rising at a rate of 2.9 percent. State and local government employment grew by 0.5 percent, but federal government civilian employment declined by 0.3 percent in Fiscal Year 2004. Wholesale trade employment rose by 1.4 percent, retail trade employment grew by 1.1 percent, and transportation, warehousing and utilities employment increased slightly by 0.2 percent. Employment in the information sector fell by 1 percent and employment in natural resources declined by 0.6 percent in Fiscal Year 2004.

## **Economic Outlook**

The economic forecast for Washington State for Fiscal Year 2005 reflects the impact of the long-awaited recovery at both the state and national levels. According to the November 2004 forecast by the state Economic and Revenue Forecast Council (ERFC), growth in Washington's non-farm payroll employment is predicted to increase by 2.1 percent in Fiscal Year 2005, a rate closer to the state's long-term average employment growth and significantly higher than the expected national growth rate of 1.6 percent for non-farm payroll employment in Fiscal Year 2005.

Washington's personal income growth will rebound in Fiscal Years 2005 with growth of 5.2 percent. After lagging behind the U.S. for several years, Washington's personal income growth will grow at about the same rate as U.S. personal income growth, which is predicted to be 5.3 percent in Fiscal Year 2005. Employment growth in manufacturing, including aerospace and in information, will help push Washington's personal income up to the national level in Fiscal Year 2005.

Manufacturing employment in Washington is projected to resume growing in Fiscal Year 2005. Aerospace employment is expected to grow slightly in Fiscal Year 2005, by 0.7 percent. Other manufacturing sectors are also expected to show some increase in employment, adding about 1,900 jobs (a 1 percent increase) in Fiscal Year 2005. Most sectors of durable manufacturing are expected to increase in employment. The fastest employment growth is expected in machinery, at 5.8 percent, electrical equipment, appliances and components, at 5.5 percent, and other transportation equipment, at 6.5 percent. Most sectors of non-durable manufacturing are expected to continue declining in Fiscal Year 2005. Employment in food manufacturing is forecast to fall by 2.9 percent, and employment in paper and paper products manufacturing will decline by 2.5 percent. Employment in other non-durables manufacturing should grow by 1.4 percent in Fiscal Year 2005.

In the non-manufacturing sectors, the strongest growth is predicted to occur in the construction sector. Construction employment is forecast to grow by 3.9 percent in Fiscal Year 2005. Services employment growth is expected to be another bright spot in the recovery. Employment in that sector should grow by a relatively robust 3.6 percent in Fiscal Year 2005.

With the exception of federal government civilian employment, all other non-manufacturing sectors are expected to increase employment. Retail trade employment is forecast to show slightly

positive growth of 0.9 percent, and wholesale trade employment is expected to increase by 2.1 percent in Fiscal Year 2005. Information employment should grow modestly with an increase of 1 percent in Fiscal Year 2005. Employment growth in transportation, warehousing and utilities employment is predicted to grow by 2.3 percent, and employment in the natural resources industries is forecast to grow by 2.8 percent in Fiscal Year 2005. After significant budget cuts in previous years, state and local government employment is expected to grow by 1.2 percent in Fiscal Year 2005.

A few Washington industries will continue to experience slow or no growth going into Fiscal Year 2005. Federal government civilian employment is forecast to fall in Fiscal Year 2005, by 1.3 percent. The slowest growth performance among the non-manufacturing sectors is predicted to occur in the financial activities industry. Employment in this industry is expected to increase by only 0.4 percent in Fiscal Year 2005, perhaps reflecting rising interest rates and a slowdown in mortgage refinancing.

### **General Fund-State Revenues**

General Fund-State revenues for the 2001-03 Biennium were \$21.1 billion, a decrease of 0.6 percent in nominal terms over the previous biennium. Without the effect of voter-approved initiatives and legislated tax cuts, which lowered taxes and diverted revenues from the General Fund, revenues would have grown by 1.9 percent in the 2001-03 Biennium.

Revenue growth is expected to rebound in the 2003-05 Biennium. General Fund-State collections are forecast to increase by 9.6 percent during that two-year period, generating revenue of \$23.2 billion. A series of revenue enhancements including the addition of more auditors to the Department of Revenue, an increase in fines and penalties related to delinquent taxes, and the delay of transfers of the state property tax to local school districts to reduce class sizes helped buoy revenues. Without those additions, General Fund-State revenue would have grown by 6.1 percent in the 2003-05 Biennium.

Based on the November revenue forecast, Washington will have an estimated reserve of \$641 million by the end of the 2003-05 Biennium, up slightly from \$462 million in the previous biennium. These projected reserves assume no further changes in appropriations for the 2003-05 Biennium.

### **Major Initiatives**

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Washington continued its multi-year effort in 2004 to improve the state's public education system, make state government more efficient and responsive, promote economic development, and protect and make wiser use of natural resources. In his final year in office, Governor Locke left Washington in solid financial health despite the effects of a severe and lingering economic downturn.

#### **Public Education**

The Legislature and Governor Locke took additional steps in 2004 to improve the quality of primary and secondary education in Washington. Among them were improvements to the Washington Assessment of Student Learning achievement tests. Students are now allowed to retake the tests and use alternative ways to show they have met state standards in reading, writing and math - a requirement to graduate beginning in 2008. Other improvements include a stronger Learning

Assistance Program to help underachieving K-12 students with reading, mathematics and writing. Technical help is provided to schools that fail to meet academic improvement goals, and permission was given for school districts to collect the full amount of voter-approved school levies to offset recent state budget reductions.

## **Higher Education**

Governor Locke and the Legislature created 3,000 badly needed enrollment slots at state colleges and universities, providing Washington businesses more skilled workers to strengthen the economy. About one-third of the \$17 million enrollment increase is in high-demand fields including information technology, nursing and engineering. Also provided were \$111 million in construction funds to expand and improve facilities at state colleges and universities, and \$2.3 million to continue offering \$1,200 Promise Scholarships to high-achieving high school seniors.

## **Economic Development**

Efforts continued in 2004 to improve the ability of business to thrive in Washington. The Governor and Legislature provided \$86 million worth of business tax incentives to help Washington keep its competitive edge, including \$68 million for technology research and development, and to attract more manufacturing jobs to rural areas.

## **Environment**

Important steps were taken in 2004 to protect Washington's environment. Among other things, Governor Locke enacted more than \$12 million in state operating and capital funds to set in-stream flows and take other actions to improve water efficiency and reclamation. He also provided new funding of \$860,000 to reduce storm water pollution, as well as identify PBT and mercury toxins and develop a plan for removing them from the environment. In addition, he signed a law placing new limits on carbon dioxide emissions by new power plants.

## **Human Services**

The Governor and Legislature reduced the impact of pending health care premiums to be charged to parents of children receiving state-sponsored, optional Medicaid health coverage. In addition, they provided \$24 million to fund the home-care workers contract. Home-care workers received a 50-cent per hour wage increase, worker compensation benefits and limited health care benefits.

## **Transportation**

The \$4.2 billion transportation funding package approved in 2003 continued to be deployed to build and expand high-priority state highway projects. In 2004, Governor Locke and the Legislature appropriated \$3.5 million, with a \$9.4 million federal match, to bring the state ferry system into compliance with new United States Coast Guard security rules. In addition, the Governor enacted a law allowing motorists to renew driver licenses through the internet or mail.

## **Financial Management Information**

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### **Internal Controls**

The state is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the state are protected from loss, theft, or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Washington State continues to assess the adequacy of its internal control structure and make improvements where weaknesses are found. These actions will help assure that the state maintains public accountability for years to come.

### **Budgetary Controls**

Budgetary control is maintained through legislative appropriations and the executive branch allotment process. The Governor is required to submit a biennial budget to the Legislature. The budget is legally required to be adopted through passage of appropriation bills by the Legislature with approval by the Governor. Appropriated funds are controlled by the executive branch through an allotment process. This expenditure plan details the appropriation into monthly estimates by program, source of funds, and object of expenditure. Nonappropriated governmental funds are also subject to allotment control by the executive branch. Additionally, the state maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at the end of the appropriation. However, capital encumbrances are generally reappropriated as part of the following biennial budget.

The state's budgetary policies and procedures, fund accounting structure, and basis of accounting are explained in detail in the notes to the financial statements and notes to the required supplementary information.

### **Retirement Plans**

The state administers 12 defined benefit retirement plans, three combination defined benefit/defined contribution retirement plans, and one defined contribution retirement plan covering eligible employees of the state and local governments. Note 11 to the financial statements presents plan descriptions, information on funding policies, and combining statements of plan net assets and changes in plan net assets.

### **Insurance Activities**

The state has three insurance programs operated and accounted for as insurance businesses. Notes 1.E.2 and 7.C to the financial statements disclose the specific programs and claims liability changes during Fiscal Year 2004 for each insurance program.

Liabilities of the workers' compensation insurance activity amount to \$16.6 billion as of June 30, 2004. The liability includes \$8.2 billion for supplemental pension cost of living adjustments (COLAs) that, by statute, are not to be fully funded. These COLA payments are funded on a pay-as-you-go basis, and the Department of Labor and Industries' actuaries have indicated that future

premium payments will be sufficient to pay these claims as they come due. The remaining \$8.4 billion in claims liability is fully funded by long-term investments, net of obligations under securities lending agreements, held for payment of claims.

The risk management insurance activity liabilities amount to \$513.3 million as of June 30, 2004. The funding for this liability is limited by statute to a maximum of 50 percent. This liability is currently funded by \$71 million in cash and pooled investments.

Health insurance activities have liabilities as of June 30, 2004, amounting to \$66.9 million that are fully funded with cash and investments, net of obligations under securities lending agreements.

## **Other Information**

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### **Independent Audit**

State statutes require an annual audit by the Office of the State Auditor. The State Auditor is an independently elected public official. The state is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The State Auditor conducts the audit of all state agencies. In addition to meeting the requirements set forth in state statutes, the audit is also designed to meet the requirements of the federal Single Audit Act. The Auditor's report on the basic financial statements is included in the financial section of this report. The Auditor's report related to the single audit, including the schedule of federal financial assistance, findings and recommendations, and reports on internal control structure and compliance with applicable laws and regulations, will be published in a separate report. When completed, the report will be available on the Office of Financial Management website at: <http://www.ofm.wa.gov>.

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Washington State for its Comprehensive Annual Financial Report for the fiscal year that ended June 30, 2003. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, with contents conforming to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Washington State has received a Certificate of Achievement for the last seventeen years. The Office of Financial Management considers this report to be in conformance with the Certificate of Achievement Program requirements, and will submit it to the GFOA.

### **Acknowledgment**

The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of each state agency and institution of higher education, and the Office of Financial Management.



This Comprehensive Annual Financial Report reflects the commitment of the Governor to the Legislature, the citizens of Washington State, and the financial community to maintain financial statements in conformance with the highest standards of financial accountability.

Sincerely,

A handwritten signature in black ink that reads "Marty Brown". The signature is written in a cursive, flowing style.

Marty Brown  
Director



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of Washington

For its Comprehensive Annual

Financial Report

for the Fiscal Year Ended

June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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## State of Washington Elected Officials as of June 30, 2004

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Gary Locke  
*Governor*



Brad Owen  
*Lieutenant Governor*



Sam Reed  
*Secretary of State*



Michael Murphy  
*Treasurer*



Brian Sonntag  
*State Auditor*



Christine Gregoire  
*Attorney General*



Terry Bergeson  
*Superintendent of Public Instruction*



Doug Sutherland  
*Commissioner of Public Lands*



Mike Kreidler  
*Insurance Commissioner*



## 2003-2004 Organization Chart

# Washington State Government

### Legislative Branch

Senate House of Representatives

Joint Legislative Audit and Review Committee  
Legislative Transportation Committee  
Legislative Ethics Board  
Legislative Evaluation and Accountability Program

Office of the State Actuary  
Joint Legislative Systems Committee  
Redistricting Commission  
(activated decennially)

### Executive Branch

Court of Appeals  
Superior Courts  
District Courts  
Municipal Courts

Supreme Court Clerk  
Supreme Court Commissioner  
Administrator for the Courts  
Office of Public Defense

### Judicial Branch

Supreme Court  
Law Library  
Reporter of Decisions  
Commission on Judicial Conduct

### Agencies Managed by Statewide Elected Officers

Commissioner of Public Lands	Insurance Commissioner	Treasurer	Lieutenant Governor	Governor	Attorney General	Superintendent of Public Instruction	Auditor	Secretary of State
Department of Natural Resources Forest Practices Board		Public Deposit Protection Commission State Finance Committee		Office of the Governor	Executive Ethics Board	Board of Education Academic Achievement and Accountability Commission Professional Educator Standards Board		Productivity Board State Library
				Puget Sound Water Quality Action Team Salmon Recovery Office				Governor's Office of Indian Affairs Office of the Family and Children's Ombudsman

Environment and Natural Resources	General Government	Transportation	Health and Human Services	Education	Community and Economic Development
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Agencies Managed by Governor-appointed Executives					
Department of Ecology Department of Agriculture commodity commissions Interagency Committee for Outdoor Recreation Salmon Recovery Funding Board Pollution Liability Insurance Program	Office of Financial Management Department of General Administration Department of Revenue Department of Personnel Personnel Resources Board Department of Retirement Systems Employee Retirement Benefits Board Department of Information Systems Integrated Justice Information Board Lottery Commission Department of Financial Institutions Military Department Public Printer Office of Administrative Hearings Board of Accountancy	State Patrol Department of Licensing occupational regulatory boards Traffic Safety Commission	Department of Social and Health Services Department of Labor and Industries Department of Employment Security Department of Health occupational regulatory boards Department of Corrections Department of Veterans Affairs Council for the Prevention of Child Abuse and Neglect Health Care Authority Public Employees' Benefits Board Department of Services for the Blind	School for the Blind School for the Deaf Board of Trustees Workforce Training and Education Coordinating Board	Department of Community, Trade, and Economic Development Economic Development Commission Energy Facility Site Evaluation Council Public Works Board Building Code Council Office of Minority and Women's Business Enterprises Commission on Asian Pacific American Affairs Commission on African-American Affairs Commission on Hispanic Affairs Arts Commission

### Agencies Under Authority of a Board

Fish and Wildlife Commission Department of Fish and Wildlife Parks and Recreation Commission Environmental Hearings Office Pollution Control Hearings Board Shorelines Hearings Board Forest Practices Appeals Board Hydraulic Appeals Board Conservation Commission Columbia River Gorge Commission Growth Management Hearings Boards Eastern Washington Central Puget Sound Western Washington Board of Natural Resources	Liquor Control Board Utilities and Transportation Commission Personnel Appeals Board (abolished 2006) Public Employment Relations Commission Board of Tax Appeals Public Disclosure Commission Board for Volunteer Firefighters and Reserve Officers Gambling Commission Horse Racing Commission Investment Board Statute Law Committee Code Reviser Municipal Research Council Economic and Revenue Forecast Council Caseload Forecast Council Pension Funding Council Forensic Investigations Council Citizens' Commission on Salaries for Elected Officials State Capitol Committee Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 Board	Transportation Commission Department of Transportation Board of Pilotage Commissioners Marine Employees' Commission Transportation Improvement Board Freight Mobility Strategic Investment Board County Road Administration Board	Human Rights Commission Indeterminate Sentence Review Board Board of Industrial Insurance Appeals Criminal Justice Training Commission Sentencing Guidelines Commission Health Care Facilities Authority Board of Health Home Care Quality Authority Tobacco Settlement Authority	Higher Education Coordinating Board Governing Boards of Four Year Institutions of Higher Education University of Washington Washington State University Central Washington University Eastern Washington University Western Washington University The Evergreen State College Board for Community and Technical Colleges Boards of Trustees Community Colleges Technical Colleges Spokane Intercollegiate Research and Technology Institute Higher Education Facilities Authority Washington State Historical Society Eastern Washington State Historical Society	Convention and Trade Center Housing Finance Commission Economic Development Finance Authority
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**INDEPENDENT AUDITOR'S REPORT**

December 16, 2004

The Honorable Gary Locke  
Governor, State of Washington

Dear Governor Locke:

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Washington as of and for the fiscal year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the state's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Department of Retirement Systems and the Local Government Investment Pool, which represent 14 percent and 51 percent, respectively of the assets and revenues/additions of the aggregate discretely presented component units and remaining fund information. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Department of Retirement Systems and the Local Government Investment Pool, is based upon their reports.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our report and the report of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Washington as of June 30, 2004, and the results of its operations and cash flows of its proprietary funds for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* in the United States of America, we will issue our report on our consideration of the State of Washington's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and the required supplementary information are not a required part of the basic financial statements, but are supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the State of Washington's basic financial statements. The combining and individual fund statements and schedules listed in the table of contents, and the budgetary reports (CAF1054) referenced in Note 1.E.1 are for purposes of additional analysis, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other data included in this report, designated as the introductory and statistical sections in the table of contents, has not been audited by us and, accordingly, we express no opinion on such data.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag", written in a cursive style.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

## Management's Discussion and Analysis

As managers of the state of Washington, we offer this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2004. We present this information in conjunction with the information included in our letter of transmittal, which can be found preceding this narrative, and with the state's financial statements, which follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### Financial Highlights

- Total assets of the state of Washington exceeded its liabilities by \$15.6 billion (reported as *net assets*). Of this amount, \$2.5 billion was reported as "unrestricted net assets." Unrestricted net assets represent the amount available to be used to meet the state's ongoing obligations to citizens and creditors.
- The state of Washington's governmental funds reported combined ending fund balances of \$8.2 billion, an increase of \$962 million in comparison with the prior year.
- Unreserved fund balance for the General Fund was \$385 million, or 2.3 percent of total General Fund expenditures.
- The state's capital assets increased by \$1.3 billion while total bond debt increased by \$867 million during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the state of Washington's basic financial statements. The state of Washington's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The focus is on both the state as a whole (government-wide) and the major individual funds. The dual perspectives allow the reader to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government) and enhance the state's accountability.

**Government-wide Financial Statements** - The *government-wide financial statements* are designed to provide readers with a broad overview of the state of Washington's finances, in a manner similar to a private sector business.

The *Statement of Net Assets* presents information on all of the state of Washington's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the state of Washington is improving or deteriorating.

The *Statement of Activities* presents information showing how the state's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The Statement of Activities is focused on both the gross and net cost of various activities (including governmental, business-type and component unit). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

Both of the government-wide financial statements distinguish functions of the state of Washington that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions



that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the state of Washington include education, human services, transportation, natural resources, adult corrections and general government. The business-type activities of the state of Washington include the workers' compensation, unemployment compensation and health insurance programs, as well as various higher education student services such as housing and dining.

The government-wide financial statements can be found on pages 35-37 of this report.

**Fund Financial Statements** - A *fund* is a grouping of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The state of Washington, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the state can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for three major funds and an aggregate total for all non-major funds. The state's major governmental funds are the General Fund, Higher Education Special Revenue Fund, and the Higher Education Endowment Permanent Fund. Individual fund data for each of the non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The governmental fund financial statements can be found on pages 40-43 of this report.

**Proprietary Funds.** - The state of Washington maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. *Internal service funds* represent an accounting device used to accumulate and allocate costs internally among the state of Washington's various functions. The state of Washington uses internal service funds to account for general services such as motor pool, central stores, data processing services, and printing services. Because internal service funds predominately benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, but in greater detail. The proprietary fund financial statements provide separate information for Workers Compensation, Unemployment Compensation Funds and Higher Education Student Services Fund, which are considered to be major funds, as well as an aggregated total for all non-major enterprise funds. The internal service funds are combined for presentation purposes. Individual fund data for the state's non-major proprietary funds are provided in the form of *combining statements* elsewhere in this report.

The proprietary fund financial statements can be found on pages 44-47 of this report.

***Fiduciary Funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the state of Washington's own programs. Washington's fiduciary funds include state administered pension plans. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 48-49 of this report.

***Component Units.*** Component units are entities which are legally separate from the state but which are financially accountable to the state. The state has one major component unit, the Washington State Public Stadium Authority, and four non-major component units. Refer to Note 1 on pages 54 and 55 for more detailed information. Individual fund data for the state's non-major component units are provided in the form of *combining statements* elsewhere in this report.

The financial statements for the state's component units can be found on pages 50-51 of this report.

***Notes to the financial statements.*** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 52-110 of this report.

***Other required information.*** In addition to this discussion and analysis, this report also presents required supplementary information on budgetary comparisons, pension plan funding, and infrastructure assets reported using the modified approach. Required supplementary information can be found on pages 111-130 of this report.

The combining statements referred to earlier are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 131-189 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the state of Washington, total assets exceed liabilities by \$15.6 billion at June 30, 2004 as compared to \$14.9 billion at June 30, 2003.

The largest portion of the state's net assets (53.5 percent for Fiscal Year 2004 as compared to 64.3 percent for Fiscal Year 2003) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The state of Washington uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the state of Washington's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

## State of Washington's Net Assets

(in millions of dollars)

	Governmental Activities		Business-type Activities		Total	
	2004	2003*	2004	2003*	2004	2003
Current and other assets	\$ 13,110	\$ 12,155	\$ 15,032	\$ 14,919	\$ 28,142	\$ 27,074
Capital assets	21,294	20,110	1,452	1,280	22,746	21,390
Total assets	<u>34,404</u>	<u>32,265</u>	<u>16,484</u>	<u>16,199</u>	<u>50,888</u>	<u>48,464</u>
Long-term liabilities outstanding	11,325	10,070	18,646	18,140	29,971	28,210
Other liabilities	3,432	3,341	1,891	2,027	5,323	5,368
Total Liabilities	<u>14,757</u>	<u>13,411</u>	<u>20,537</u>	<u>20,167</u>	<u>35,294</u>	<u>33,578</u>
Net assets:						
Invested in capital assets, net of related debt	7,817	9,033	522	543	8,339	9,576
Restricted	3,106	2,283	1,624	1,514	4,730	3,797
Unrestricted	8,723	7,538	(6,199)	(6,025)	2,524	1,513
Total net assets	<u>\$ 19,646</u>	<u>\$ 18,854</u>	<u>\$ (4,053)</u>	<u>\$ (3,968)</u>	<u>\$ 15,593</u>	<u>\$ 14,886</u>

A portion of the state of Washington's net assets (30.3 percent for Fiscal Year 2004 as compared to 25.5 percent for Fiscal Year 2003) represents resources that are subject to constitutional or external restrictions on how they may be used. The remaining balance of *unrestricted net assets* may be used to meet the state's ongoing obligations to citizens and creditors.

### State of Washington's Changes in Net Assets

(in millions of dollars)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Program revenues:						
Charges for services	\$ 3,091	\$ 2,801	\$ 6,058	\$ 5,439	\$ 9,149	\$ 8,240
Grants and contributions	8,461	7,716	473	830	8,934	8,546
Total revenues	11,552	10,517	6,531	6,269	18,083	16,786
Program expenses:						
General government	(918)	(812)	-	-	(918)	(812)
Education - K-12	(6,086)	(5,960)	-	-	(6,086)	(5,960)
Education - higher education	(4,216)	(3,750)	-	-	(4,216)	(3,750)
Human services	(9,348)	(8,971)	-	-	(9,348)	(8,971)
Adult corrections	(644)	(658)	-	-	(644)	(658)
Natural resources and recreation	(651)	(732)	-	-	(651)	(732)
Transportation	(1,310)	(1,422)	-	-	(1,310)	(1,422)
Intergovernmental grants	(329)	(341)	-	-	(329)	(341)
Interest on long-term debt	(478)	(415)	-	-	(478)	(415)
Workers' compensation	-	-	(2,389)	(2,617)	(2,389)	(2,617)
Unemployment compensation	-	-	(1,745)	(2,329)	(1,745)	(2,329)
Higher education student services	-	-	(1,130)	(1,051)	(1,130)	(1,051)
Health insurance programs	-	-	(1,044)	(912)	(1,044)	(912)
Other business-type activities	-	-	(951)	(937)	(951)	(937)
Total expenses	(23,980)	(23,061)	(7,259)	(7,846)	(31,239)	(30,907)
Net program expenses over revenues	(12,428)	(12,544)	(728)	(1,577)	(13,156)	(14,121)
General revenues:						
Taxes	13,093	12,202	116	86	13,209	12,288
Interest and investment earnings	294	252	286	1,317	580	1,569
Excess(deficiency) of revenues over expenses before contributions to endowments and transfers	959	(90)	(326)	(174)	633	(264)
Contributions to endowments	46	36	-	-	46	36
Transfers	199	619	(199)	(619)	-	-
Increase(decrease) in net assets	1,204	565	(525)	(793)	679	(228)
Net assets - July 1, as restated*	18,442	18,289	(3,528)	(3,175)	14,914	15,114
Net assets - June 30	\$ 19,646	\$ 18,854	\$ (4,053)	\$ (3,968)	\$ 15,593	\$ 14,886

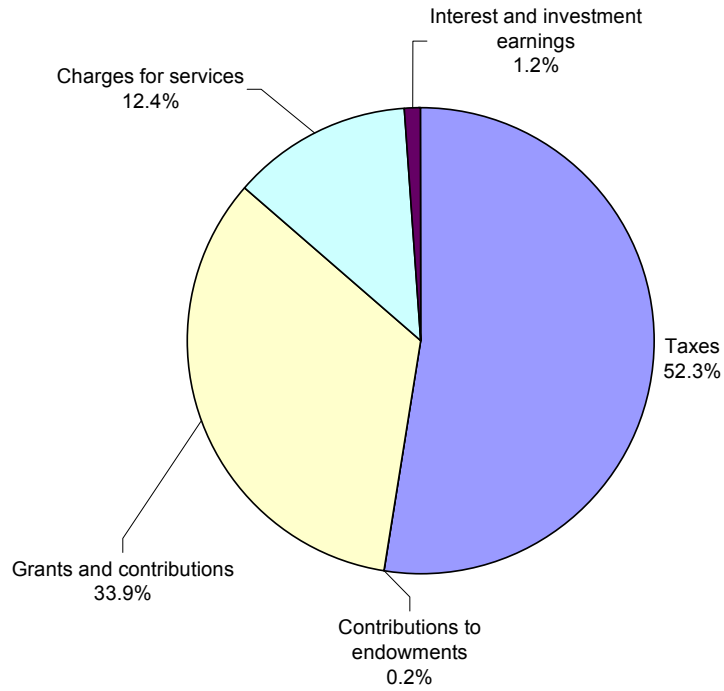
\*Note: Net assets as of July 1, 2004, have been restated to reflect fund-type reclassification and prior period error correction.

As previously mentioned, the state's activities are divided between governmental and business-type. The majority of support for governmental activities comes from taxes and intergovernmental grants, while the business-type activities are supported primarily through user charges.

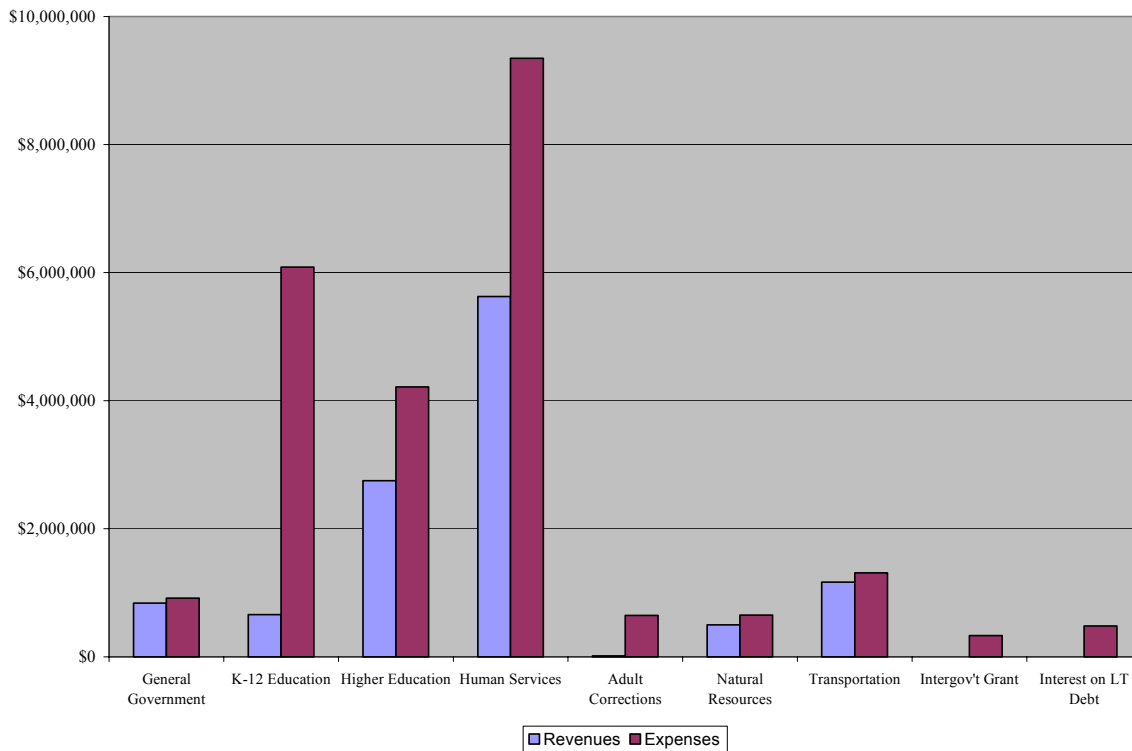
**Governmental activities.** Governmental activities resulted in a net increase in the state of Washington's net assets (as restated) of \$1,204 million. Key elements of this increase are as follows:

- Receipt of \$102 million in fiscal relief payments under the Federal Jobs and Growth Tax Relief Reconciliation Act of 2004.
- A series of revenue enhancements initiated by the state resulted in increases in taxes, as well as fines and penalties related to delinquent taxes.

## Revenues by Source – Governmental Activities

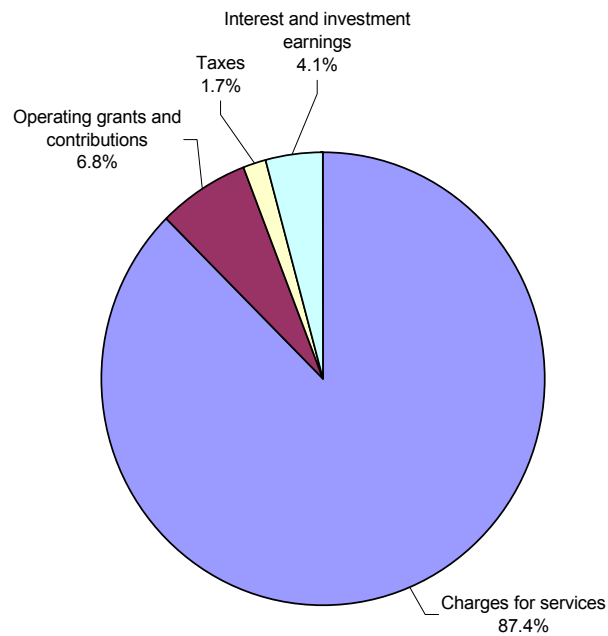


## Expenses and Program Revenues - Governmental Activities

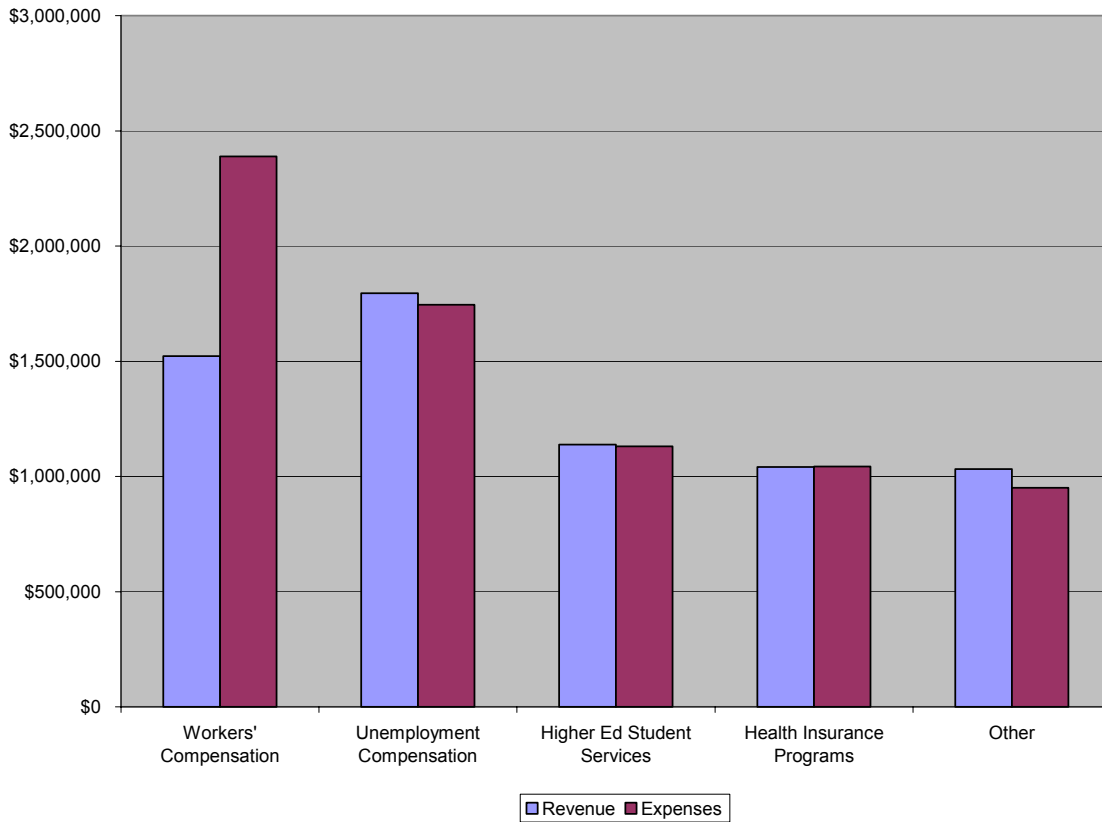


***Business-type activities.*** Business-type activities decreased the state of Washington's net assets (as restated) by \$525 million. The main cause of this decrease was that the workers' compensation program experienced a loss. By law, the supplemental pension cost-of-living adjustments granted for time-loss and disability payments are funded on a pay-as-you-go basis while the related costs are recognized at the time the injury occurs.

### Revenues by Source – Business-type Activities



### Expenses and Program Revenues – Business-type Activities



### Financial Analysis of the Government's Funds

As noted earlier, the state of Washington uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** As discussed earlier, the focus of the state of Washington's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the state of Washington's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the state of Washington. At the end of the fiscal year, total fund balance for the General Fund equaled \$1.52 billion. Unreserved fund balance, the amount considered available to spend, totaled \$385 million. \$965 million of the General Fund fund balance relates to certain accrued revenues and has been designated for working capital purposes. It is not considered available to spend.

The fund balance of the state of Washington's General Fund increased by \$148 million during the current fiscal year.

## State of Washington's General Fund

(in millions of dollars)

	Fiscal Year 2004	Fiscal Year 2003	Difference Increase (Decrease)
Revenues			
Taxes	\$ 11,225	\$ 10,610	\$ 615
Federal grants	5,917	5,354	563
Investment revenue	5	36	(31)
Other	463	498	(35)
Total	17,610	16,498	1,112
Expenditures			
Human services	8,989	8,538	451
Education	6,977	6,911	66
Other	914	890	24
Total	16,880	16,339	541
Net transfers in (out)	(587)	(139)	(448)
Other financing sources	5	11	(6)
Net increase(decrease) in fund balance	\$ 148	\$ 31	\$ 117

The state's recovery from recession combined with state revenue enhancements measures are reflected in increased tax revenue collection. Expenditure growth continues to be limited to services and programs most vital to citizens – primarily health care, public education and economic development.

In addition to the General Fund, the state reports the Higher Education Special Revenue and Higher Education Endowment Funds as major governmental funds. The fund balance for the Higher Education Endowment Fund increased by \$207 million primarily as a result of investment earnings.

Non-major governmental fund revenue increased by \$286 million in Fiscal Year 2004 compared with Fiscal Year 2003 primarily related to tax revenues. This revenue increase combined with a reduction in expenditures resulted in an increase of fund balance of \$447 million.

**Proprietary Funds.** The state of Washington's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The Workers' Compensation Fund, Unemployment Compensation Fund and Higher Education Student Services Fund are major proprietary funds. The Workers' Compensation Fund experienced a loss in Fiscal Year 2004 as discussed previously under business-type activities. The Unemployment Compensation Fund reported income of \$111 million in Fiscal Year 2004 compared with a loss of \$374 million in Fiscal Year 2003. This reflects the reduction in the state's unemployment rate. Activity for the various non-major proprietary funds resulted in an increase to net assets of \$38 million. The Risk Management Fund, an internal service fund, ended Fiscal Year 2004 with net operating income of \$39 million.



## General Fund Budgetary Highlights

Differences between the General Fund original budget and the final amended budget reflect adjustments to deal with the state's recession and are summarized as follows:

- Estimated tax revenues were decreased \$240 million.
- Estimated revenues from federal grants-in-aid increased by \$495 million.
- Resources provided by transfers in from other funds increased by \$75 million.
- Appropriated expenditures increased by \$568 million.

Differences between the General Fund final amended budget and actual expenditures are as expected at mid-point in the biennial budget – both actual revenues and expenditures approximating half of the estimated/appropriated amount.

## Capital Asset, Infrastructure, Bond Debt Administration, and Subsequent Events

**Capital assets.** The state of Washington's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounts to \$22.7 billion (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, museum and historical collections, buildings and other improvements, furnishings and equipment, as well as construction in progress.

Washington's Fiscal Year 2004 investment in capital assets, net of current year depreciation, was \$1.3 billion, including increases to the state's highway infrastructure of \$782 million and buildings of \$636 million. The state's construction in progress includes both new construction and major improvements to state facilities including correctional facilities, ferry vessels and terminals, and buildings on the capitol and college and university campuses. Remaining commitments on these construction projects total \$2.3 billion.

Additional information on the state of Washington's capital assets can be found in Note 6 beginning on page 74 of this report.

### State of Washington's Capital Assets (net of depreciation) (in millions of dollars)

	Governmental Activities		Business-type Activities		Total	
	2004	2003*	2004	2003*	2004	2003
Land	\$ 1,184	\$ 1,138	\$ 101	\$ 86	\$ 1,285	\$ 1,224
Highway system infrastructure and other assets not depreciated	12,618	11,839	-	-	12,618	11,839
Buildings	4,470	4,037	1,099	896	5,569	4,933
Furnishings, equipment and collections	1,304	1,291	119	90	1,423	1,381
Other improvements and miscellaneous	686	635	46	42	732	677
Construction in progress	1,032	1,163	87	264	1,119	1,427
Total	<u>\$ 21,294</u>	<u>\$ 20,103</u>	<u>\$ 1,452</u>	<u>\$ 1,378</u>	<u>\$ 22,746</u>	<u>\$ 21,481</u>

\*Note: Fiscal Year 2003 restated to reflect fund-type reclassification and prior period error correction.

**Infrastructure.** The state of Washington first reported infrastructure under the requirements of the Governmental Accounting Standards Board in Fiscal Year 2002. Transportation infrastructure reported includes the State Highway System, Emergency Airfields and a short rail line. While the rail line is reported net of depreciation, the State Highway System and Emergency Airfields are reported using the Modified Approach.

Under the Modified Approach, rather than recording depreciation, asset condition is reported. The condition of these assets, along with their rating scales for pavements, bridges and air fields are further explained in the notes and required supplementary information to the financial statements.

The Department of Transportation accomplished a net addition of 25 lane miles, added 13 new bridges and removed 16 bridges in Fiscal Year 2004. In addition, 741 miles of special use lanes and lanes under construction were included in total lane miles for the first time this year. The State Highway System asset value increased by \$782 million during the fiscal year. The State Highway System and Emergency Airfields continue to meet established condition levels. No significant changes in condition levels were noted for pavements or bridges. Amounts spent during Fiscal Year 2004 to maintain/preserve these infrastructure assets were not significantly different from estimated spending plans according to the biennial budget.

Commitments made for infrastructure projects that extend beyond the fiscal year amount to \$730 million representing 914 projects.

**Bond debt.** At the end of Fiscal Year 2004, the state of Washington had general obligation bond debt outstanding of \$9.3 billion, an increase of 9 percent over Fiscal Year 2003. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized \$6.1 billion general obligation debt that remained unissued.

The state had revenue debt outstanding at June 30, 2004, of \$1,009 million, an increase of \$59 million over Fiscal Year 2003. This increase is primarily related to revenue bonds issued by state colleges and universities. Revenue bond debt is secured by specific sources of revenue.

Four times during the year, the state issued general obligation debt, totaling \$1.62 billion for various capital and transportation projects as well as for refunding purposes. The state took advantage of the historically low interest rates that prevailed through Fiscal Year 2004 to do four refunding bonds. These refundings will save taxpayers over \$34.9 million (net present value) in future interest payments. The state ranked 39th in a list of the top 100 issuers ranked by amount financed by municipal issuers in calendar year 2003, according to The Bond Buyer's 2004 Yearbook.

### State of Washington's Bond Debt

*(in millions of dollars)*

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation (GO) bonds	\$ 9,173	\$ 8,376	\$ 155	\$ 172	\$ 9,328	\$ 8,548
Accreted interest on zero interest rate GO bonds	178	153	21	18	199	171
Revenue bonds*	496	502	513	448	1,009	950
Total	<u>\$ 9,847</u>	<u>\$ 9,031</u>	<u>\$ 689</u>	<u>\$ 638</u>	<u>\$ 10,536</u>	<u>\$ 9,669</u>

\*Note: Revenue bonds for Fiscal Year 2003 restated to reflect fund-type reclassification and prior period error correction.

The Washington State Constitution and the Revised Code of Washington limit the amount of general obligation (GO) debt that may be issued, the latter being the most restrictive. For the fiscal year ended June 30, 2004, the maximum GO debt authorized by statutory limit was \$6.3 billion. The debt capacity remaining was \$607.2 million. Specific bond issues and types that are not secured by general state revenues, such as motor fuel tax and reimbursable bonds, are excluded from the limitation.

By statutory provision, the State Finance Committee (SFC) is authorized to supervise and control the issuance of all state bonds, notes, or other evidences of indebtedness. The SFC is composed of the Governor, Lieutenant Governor and State Treasurer, the latter serving as chairman.

In January 2004, Standard & Poor's Rating Group (S & P) lowered the rating on Washington's general obligation bonds from AA+ (negative outlook) to AA (stable outlook). No other rating agency actions occurred during the fiscal year.

As of June 30, 2004, the state of Washington's general obligation debt was rated Aa1 (negative outlook) by Moody's Investor Service, AA (stable outlook) by S&P, and AA by Fitch Ratings.

Additional information on the state's bond debt obligations and the calculation of the legal debt limitation is presented in Note 7 beginning on page 78 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

- During the next year, the state is expected to show signs of recovery from the recession that impacted the federal and state economies during recent years.
- Revenue forecasts for the remainder of the 2003-05 Biennium reflect continued growth in General Fund revenues.
- Employment in Washington is expected to show signs of growth higher than the projected national growth rates.

Legislative leaders and management will consider these factors in preparing the state's budget for future years.

### **Requests for Information**

This financial report is designed to provide a general overview of the state of Washington's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Financial Management, PO Box 43113, Olympia, WA 98504-3113.

## **Basic Financial Statements**



## **Government-wide Financial Statements**



## State of Washington Statement of Net Assets

June 30, 2004

(expressed in thousands)

	Primary Government			
	Governmental	Business-Type		
	Activities	Activities	Total	Component Units
<b>ASSETS</b>				
Cash and pooled investments	\$ 4,085,386	\$ 3,340,797	\$ 7,426,183	\$ 37,197
Taxes receivable (net of allowance)	2,463,109	4,728	2,467,837	-
Other receivables (net of allowance)	861,330	1,230,560	2,091,890	1,398
Internal balances (net)	5,717	(5,717)	-	-
Due from other governments	2,356,632	72,812	2,429,444	-
Inventories	79,259	74,763	154,022	-
Investments, noncurrent	3,129,127	10,224,834	13,353,961	23,799
Other assets	129,553	88,818	218,371	20,117
Capital assets (Note 6):				
Non-depreciable assets	14,833,863	187,665	15,021,528	34,677
Depreciable assets, net of depreciation	6,459,675	1,264,369	7,724,044	432,722
Total capital assets, net of depreciation	21,293,538	1,452,034	22,745,572	467,399
<b>Total Assets</b>	<b>34,403,651</b>	<b>16,483,629</b>	<b>50,887,280</b>	<b>549,910</b>
<b>LIABILITIES</b>				
Accounts payable	958,539	111,232	1,069,771	1,705
Contracts and retainage payable	81,260	30,186	111,446	2,342
Accrued liabilities	402,819	224,746	627,565	115
Obligations under securities lending	948,119	1,442,576	2,390,695	-
Due to other governments	656,781	38,327	695,108	-
Deferred revenue	384,430	44,398	428,828	759
Long-term liabilities (Note 7):				
Due within one year	688,348	1,819,349	2,507,697	-
Due in more than one year	10,636,990	16,825,896	27,462,886	37,000
<b>Total Liabilities</b>	<b>14,757,286</b>	<b>20,536,710</b>	<b>35,293,996</b>	<b>41,921</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	7,816,518	522,368	8,338,886	428,057
Restricted for:				
Unemployment compensation	-	1,624,239	1,624,239	-
Other purposes	438,643	-	438,643	22,276
Capital projects	749,568	-	749,568	-
Expendable permanent fund principal	664,262	-	664,262	-
Nonexpendable permanent endowments	1,254,059	-	1,254,059	-
Unrestricted (deficit)	8,723,315	(6,199,688)	2,523,627	57,656
<b>Total Net Assets</b>	<b>\$ 19,646,365</b>	<b>\$ (4,053,081)</b>	<b>\$ 15,593,284</b>	<b>\$ 507,989</b>

The notes to the financial statements are an integral part of this statement.



# State of Washington

## Statement of Activities

For the Fiscal Year Ended June 30, 2004  
(expressed in thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 918,215	\$ 448,505	\$ 388,436	\$ 2,572
Education--elementary and secondary (K-12)	6,085,686	10,933	648,235	-
Education--higher education	4,215,975	1,250,347	1,476,306	22,357
Human services	9,347,664	358,769	5,247,719	18,923
Adult corrections	643,802	5,560	2,895	4,816
Natural resources and recreation	651,282	339,387	127,872	31,364
Transportation	1,309,913	677,359	50,935	438,519
Intergovernmental grants	329,525	-	-	-
Interest on long-term debt	478,239	-	-	-
Total governmental activities	23,980,301	3,090,860	7,942,398	518,551
Business-type Activities:				
Workers' compensation	2,388,818	1,515,427	7,480	-
Unemployment compensation	1,744,694	1,345,000	450,444	-
Higher education student services	1,130,446	1,128,029	10,515	31
Health insurance programs	1,043,729	1,041,636	-	-
Other	951,164	1,027,565	9	4,272
Total business-type activities	7,258,851	6,057,657	468,448	4,303
Total Primary Government	\$ 31,239,152	\$ 9,148,517	\$ 8,410,846	\$ 522,854
Total Component Units	\$ 29,982	\$ 11,139	\$ 369	\$ 500

### General revenues:

Taxes - sales and use taxes  
Taxes - business and occupation taxes  
Taxes - property  
Taxes - other  
Interest and investment earnings

### Total general revenues

Excess (deficiency) of revenues over expenses before contributions  
to endowments and transfers

Contributions to endowments

Transfers

Change in net assets

Net assets -- beginning, as restated

Net assets -- ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (78,702)	\$ -	\$ (78,702)	
(5,426,518)	-	(5,426,518)	
(1,466,965)	-	(1,466,965)	
(3,722,253)	-	(3,722,253)	
(630,531)	-	(630,531)	
(152,659)	-	(152,659)	
(143,100)	-	(143,100)	
(329,525)	-	(329,525)	
(478,239)	-	(478,239)	
(12,428,492)	-	(12,428,492)	
-	(865,911)	(865,911)	
-	50,750	50,750	
-	8,129	8,129	
-	(2,093)	(2,093)	
-	80,682	80,682	
-	(728,443)	(728,443)	
(12,428,492)	(728,443)	(13,156,935)	
			\$ (17,974)
6,234,499	-	6,234,499	-
2,078,265	-	2,078,265	-
1,527,208	-	1,527,208	-
3,252,617	116,194	3,368,811	-
294,400	285,883	580,283	16
13,386,989	402,077	13,789,066	16
958,497	(326,366)	632,131	(17,958)
45,911	-	45,911	-
199,194	(199,194)	-	-
1,203,602	(525,560)	678,042	(17,958)
18,442,763	(3,527,519)	14,915,244	525,947
\$ 19,646,365	\$ (4,053,079)	\$ 15,593,286	\$ 507,989



## **Fund Financial Statements**

## GOVERNMENTAL FUNDS Balance Sheet

June 30, 2004

(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
<b>Assets:</b>					
Cash and pooled investments	\$ 748,137	\$ 139,357	\$ 305,541	\$ 2,715,321	\$ 3,908,356
Investments	-	833,891	2,080,193	186,110	3,100,194
Taxes receivable (net of allowance)	2,361,117	-	-	101,992	2,463,109
Other receivables (net of allowance)	290,258	207,792	24,030	463,375	985,455
Due from other funds	131,972	144,285	39	240,842	517,138
Due from other governments	738,862	105,086	-	1,392,582	2,236,530
Inventories	16,482	8,692	-	33,836	59,010
<b>Total Assets</b>	<b>\$ 4,286,828</b>	<b>\$ 1,439,103</b>	<b>\$ 2,409,803</b>	<b>\$ 5,134,058</b>	<b>\$ 13,269,792</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 603,919	\$ 46,130	\$ 1	\$ 274,529	\$ 924,579
Contracts and retainages payable	11,799	375	1,555	66,181	79,910
Accrued liabilities	119,624	84,389	6,884	82,231	293,128
Obligations under security lending agreements	321,902	102,353	267,741	254,980	946,976
Due to other funds	498,021	44,053	173,534	175,540	891,148
Due to other governments	79,400	12,403	-	112,228	204,031
Deferred revenues	1,133,825	135,571	8,751	475,806	1,753,953
Claims and judgments payable, current	2,228	-	-	10,326	12,554
<b>Total Liabilities</b>	<b>2,770,718</b>	<b>425,274</b>	<b>458,466</b>	<b>1,451,821</b>	<b>5,106,279</b>
<b>Fund Balances:</b>					
Reserved for:					
Encumbrances	114,087	157,559	-	523,022	794,668
Inventories	14,749	8,692	-	33,836	57,277
Permanent funds	-	-	1,951,337	168,204	2,119,541
Other specific purposes	37,207	172,493	-	1,194,747	1,404,447
Unreserved, designated for:					
Working capital	964,631	-	-	-	964,631
Unrealized gains	-	3,809	-	-	3,809
Higher education	-	155,679	-	-	155,679
Special Revenue Funds	-	-	-	174	174
Debt Service Funds	-	-	-	288,231	288,231
Unreserved, undesignated	385,436	515,597	-	-	901,033
Unreserved, undesignated reported in nonmajor:					
Special Revenue Funds	-	-	-	1,474,023	1,474,023
<b>Total Fund Balances</b>	<b>1,516,110</b>	<b>1,013,829</b>	<b>1,951,337</b>	<b>3,682,237</b>	<b>8,163,513</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,286,828</b>	<b>\$ 1,439,103</b>	<b>\$ 2,409,803</b>	<b>\$ 5,134,058</b>	<b>\$ 13,269,792</b>

The notes to the financial statements are an integral part of this statement.

## State of Washington

### Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2004  
(expressed in thousands)

Total fund balances for governmental funds	\$	8,163,513
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Non-depreciable assets	\$ 14,798,014	
Depreciable assets, net of depreciation	6,172,043	
Total capital assets		20,970,057

Some of the state's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		1,370,760
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Accrued current interest on general obligation bonds		(185,674)
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		(70,828)
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Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds and notes payable	(10,096,005)	
Accrued interest on bonds	(44,213)	
Claims and judgments	(77,425)	
Other obligations	(383,820)	
Total long-term liabilities		(10,601,463)

Net assets of governmental activities	\$	19,646,365
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The notes to the financial statements are an integral part of this statement.

## GOVERNMENTAL FUNDS

### Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2004  
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
<b>Revenues:</b>					
Retail sales and use taxes	\$ 6,174,008	\$ -	\$ -	\$ 60,491	\$ 6,234,499
Business and occupation taxes	2,018,718	-	-	59,547	2,078,265
Property taxes	1,392,963	-	-	134,245	1,527,208
Excise taxes	622,951	-	-	64,379	687,330
Motor vehicle and fuel taxes	-	-	-	925,723	925,723
Other taxes	1,016,412	-	-	630,815	1,647,227
Licenses, permits, and fees	75,513	505	-	589,554	665,572
Timber sales	5,465	-	8,256	125,933	139,654
Other contracts and grants	253,180	491,978	-	12,413	757,571
Federal grants-in-aid	5,916,782	1,005,025	-	779,747	7,701,554
Charges for services	44,504	1,032,316	7	461,568	1,538,395
Investment income (loss)	4,795	66,533	188,578	34,494	294,400
Miscellaneous revenue	84,645	122,773	3,530	491,729	702,677
Contribution and donations	-	-	45,911	-	45,911
<b>Total Revenues</b>	<b>17,609,936</b>	<b>2,719,130</b>	<b>246,282</b>	<b>4,370,638</b>	<b>24,945,986</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	514,567	-	-	345,771	860,338
Human services	8,988,660	-	-	973,769	9,962,429
Natural resources and recreation	268,096	-	-	374,909	643,005
Transportation	27,037	426	-	1,269,489	1,296,952
Education	6,977,364	2,560,841	24	546,540	10,084,769
<b>Intergovernmental</b>	<b>26,678</b>	<b>-</b>	<b>-</b>	<b>302,847</b>	<b>329,525</b>
<b>Capital outlays</b>	<b>67,471</b>	<b>101,937</b>	<b>-</b>	<b>1,372,288</b>	<b>1,541,696</b>
<b>Debt service:</b>					
Principal	10,140	9,247	-	395,341	414,728
Interest	120	4,310	-	463,261	467,691
<b>Total Expenditures</b>	<b>16,880,133</b>	<b>2,676,761</b>	<b>24</b>	<b>6,044,215</b>	<b>25,601,133</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>729,803</b>	<b>42,369</b>	<b>246,258</b>	<b>(1,673,577)</b>	<b>(655,147)</b>
<b>Other Financing Sources (Uses):</b>					
Bonds issued	-	-	-	1,167,659	1,167,659
Refunding bonds issued	-	-	-	456,675	456,675
Payment to refunded bond escrow agent	-	-	-	(481,000)	(481,000)
Notes issued	4,960	11,475	-	1,680	18,115
Bond issue premium (discount)	-	8	-	70,873	70,881
Capital lease acquisitions	44	-	-	-	44
Transfers in	308,108	207,913	4,230	1,579,648	2,099,899
Transfers (out)	(895,006)	(250,539)	(43,624)	(674,459)	(1,863,628)
<b>Total Other Financing Sources (Uses)</b>	<b>(581,894)</b>	<b>(31,143)</b>	<b>(39,394)</b>	<b>2,121,076</b>	<b>1,468,645</b>
<b>Net change in fund balances</b>	<b>147,909</b>	<b>11,226</b>	<b>206,864</b>	<b>447,499</b>	<b>813,498</b>
<b>Fund Balances - Beginning, as restated</b>	<b>1,368,201</b>	<b>1,002,603</b>	<b>1,744,473</b>	<b>3,234,738</b>	<b>7,350,015</b>
<b>Fund Balances - Ending</b>	<b>\$ 1,516,110</b>	<b>\$ 1,013,829</b>	<b>\$ 1,951,337</b>	<b>\$ 3,682,237</b>	<b>\$ 8,163,513</b>

The notes to the financial statements are an integral part of this statement.

# State of Washington

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Fiscal Year Ended June 30, 2004  
(expressed in thousands)

Net change in fund balances--total governmental funds \$ 813,498

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	1,585,173	
Depreciation expense	(350,079)	
Excess of capital outlay over depreciation expense		1,235,094

Bond proceeds provide current financial resources to governmental funds, however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from:

Bonds and bond anticipation notes issued	(1,167,659)	
Refunding bonds issued	(456,675)	
Notes issued	(18,115)	
Bond issue premium	(70,881)	
Capital leases issued	(44)	
Total bond proceeds		(1,713,374)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	414,728	
Payments to the bond refunding agent	481,000	
Total long-term debt repayment		895,728

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities.

39,213

Because some revenues will not be collected for several months after the state's fiscal year end, they are not considered "available" revenues in the governmental funds.

Deferred revenues increased by this amount this year. (9,524)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in accrued and accreted interest	(36,186)	
Increase in compensated absences	(10,438)	
Increase in miscellaneous liabilities	(6,973)	
Increase in claims and judgments	(3,436)	
Total additional expenditures		(57,033)

Change in net assets of governmental activities		\$ 1,203,602
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The notes to the financial statements are an integral part of this statement.



## PROPRIETARY FUNDS

### Statement of Fund Net Assets

June 30, 2004

(expressed in thousands)

June 30, 2004

(expressed in thousands)

	Business-Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	
<b>Assets</b>						
<b>Current Assets:</b>						
Cash and pooled investments	\$ 26,552	\$ 1,126,145	\$ 342,435	\$ 327,517	\$ 1,822,649	\$ 165,295
Investments	1,269,197	-	3,184	245,767	1,518,148	1,325
Taxes receivable (net of allowance)	-	-	-	4,728	4,728	-
Other receivables (net of allowance)	588,195	489,425	127,345	25,595	1,230,560	3,652
Due from other funds	11,264	3,566	44,493	48,512	107,835	61,301
Due from other governments	1,480	6,229	32,234	19,909	59,852	4,794
Inventories	177	-	32,099	42,487	74,763	20,249
Prepaid expenses	1	-	5,314	780	6,095	1,774
<b>Total Current Assets</b>	1,896,866	1,625,365	587,104	715,295	4,824,630	258,390
<b>Noncurrent Assets:</b>						
Investments, noncurrent	9,161,021	-	146,996	916,817	10,224,834	39,344
Other noncurrent assets	-	-	-	82,723	82,723	-
<b>Capital Assets:</b>						
Land	3,240	-	19,891	77,532	100,663	1,395
Buildings	62,441	-	1,070,069	400,816	1,533,326	59,495
Other improvements	1,020	-	62,838	5,658	69,516	21,033
Furnishings, equipment, and collections	35,595	-	235,455	55,552	326,602	552,002
Accumulated depreciation	(27,094)	-	(539,861)	(98,120)	(665,075)	(344,897)
Construction in progress	4,942	-	82,060	-	87,002	34,453
<b>Total Noncurrent Assets</b>	9,241,165	-	1,077,448	1,440,978	11,759,591	362,825
<b>Total Assets</b>	\$ 11,138,031	\$ 1,625,365	\$ 1,664,552	\$ 2,156,273	\$ 16,584,221	\$ 621,215
<b>Liabilities</b>						
<b>Current Liabilities:</b>						
Accounts payable	\$ 4,166	\$ -	\$ 65,226	\$ 41,840	\$ 111,232	\$ 33,960
Contracts and retainages payable	2,270	-	9,494	18,422	30,186	1,345
Accrued liabilities	128,172	-	88,137	127,526	343,835	16,916
Obligations under security lending agreements	1,269,197	-	-	173,379	1,442,576	1,143
Bonds and notes payable	2,898	-	19,613	39,502	62,013	4,559
Due to other funds	18,725	344	47,157	66,402	132,628	20,743
Due to other governments	-	674	211	5,322	6,207	86
Deferred revenues	13,542	-	30,623	233	44,398	1,237
Claims and judgments payable, current	1,569,942	-	-	68,307	1,638,249	81,423
<b>Total Current Liabilities</b>	3,008,912	1,018	260,461	540,933	3,811,324	161,412
<b>Non-Current Liabilities:</b>						
Claims and judgments payable, long-term	15,021,157	-	-	1,929	15,023,086	463,774
Bonds and notes payable	39,886	-	564,769	282,849	887,504	48,745
Other long-term liabilities	10,096	-	7,901	897,391	915,388	18,112
<b>Total Non-Current Liabilities</b>	15,071,139	-	572,670	1,182,169	16,825,978	530,631
<b>Total Liabilities</b>	18,080,051	1,018	833,131	1,723,102	20,637,302	692,043
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	37,359	-	346,069	138,940	522,368	270,178
Restricted for:						
Unemployment compensation	-	1,624,347	-	-	1,624,347	-
Other specific purposes	-	-	-	-	-	-
Unrestricted	(6,979,379)	-	485,352	294,231	(6,199,796)	(341,006)
<b>Total Net (Deficit) Assets</b>	\$ (6,942,020)	\$ 1,624,347	\$ 831,421	\$ 433,171	\$ (4,053,081)	\$ (70,828)

The notes to the financial statements are an integral part of this statement.

## PROPRIETARY FUNDS

### Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the Fiscal Year Ended June 30, 2004  
(expressed in thousands)

	Business-Type Activities				Total	Governmental
	Enterprise Funds					Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds		Internal Service Funds
<b>Operating Revenues:</b>						
Sales	\$ -	\$ -	\$ 122,184	\$ 468,212	\$ 590,396	\$ 125,290
Less: Cost of goods sold	-	-	75,454	314,562	390,016	107,351
Gross profit	-	-	46,730	153,650	200,380	17,939
Charges for services	17	-	928,590	50,676	979,283	491,959
Premiums and assessments	1,453,380	1,324,644	-	1,039,975	3,817,999	96,173
Federal aid for unemployment insurance benefits	-	450,320	-	-	450,320	-
Lottery ticket proceeds	-	-	-	481,440	481,440	-
Miscellaneous revenue	62,030	20,356	72,067	7,660	162,113	46,181
<b>Total Operating Revenues</b>	<b>1,515,427</b>	<b>1,795,320</b>	<b>1,047,387</b>	<b>1,733,401</b>	<b>6,091,535</b>	<b>652,252</b>
<b>Operating Expenses:</b>						
Salaries and wages	108,557	-	427,854	74,847	611,258	220,447
Employee benefits	26,272	-	71,716	20,659	118,647	48,648
Personal services	2,641	-	25,361	17,232	45,234	16,151
Goods and services	60,248	-	414,742	107,134	582,124	248,651
Travel	2,796	-	15,410	1,701	19,907	3,761
Premiums and claims	2,172,545	1,744,694	327	1,033,765	4,951,331	29,756
Lottery prize payments	-	-	-	295,488	295,488	-
Depreciation and amortization	6,261	-	51,116	16,584	73,961	53,449
Miscellaneous expenses	7,109	-	15,427	27,270	49,806	404
<b>Total Operating Expenses</b>	<b>2,386,429</b>	<b>1,744,694</b>	<b>1,021,953</b>	<b>1,594,680</b>	<b>6,747,756</b>	<b>621,267</b>
<b>Operating Income (Loss)</b>	<b>(871,002)</b>	<b>50,626</b>	<b>25,434</b>	<b>138,721</b>	<b>(656,221)</b>	<b>30,985</b>
<b>Nonoperating Revenues (Expenses):</b>						
Earnings (loss) on investments	171,169	60,132	20,542	34,040	285,883	2,214
Interest expense	(2,389)	-	(33,039)	(50,700)	(86,128)	(3,328)
Distributions to other governments	-	-	-	(34,951)	(34,951)	-
Other revenue (expenses)	7,480	124	15,703	137,441	160,748	(759)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>176,260</b>	<b>60,256</b>	<b>3,206</b>	<b>85,830</b>	<b>325,552</b>	<b>(1,873)</b>
<b>Income (Loss) Before Contributions and Transfers</b>						
	(694,742)	110,882	28,640	224,551	(330,669)	29,112
Capital Contributions	-	-	31	4,272	4,303	3,674
Transfers in	296,274	-	155,712	43,070	495,056	44,202
Transfers (out)	(297,539)	-	(162,742)	(233,971)	(694,252)	(37,775)
<b>Net Contributions and Transfers</b>	<b>(1,265)</b>	<b>-</b>	<b>(6,999)</b>	<b>(186,629)</b>	<b>(194,893)</b>	<b>10,101</b>
<b>Change in Net Assets</b>	<b>(696,007)</b>	<b>110,882</b>	<b>21,641</b>	<b>37,922</b>	<b>(525,562)</b>	<b>39,213</b>
<b>Net Assets - Beginning, as restated</b>	<b>(6,246,013)</b>	<b>1,513,465</b>	<b>809,780</b>	<b>395,249</b>	<b>(3,527,519)</b>	<b>(110,041)</b>
<b>Net Assets - Ending</b>	<b>\$ (6,942,020)</b>	<b>\$ 1,624,347</b>	<b>\$ 831,421</b>	<b>\$ 433,171</b>	<b>\$ (4,053,081)</b>	<b>\$ (70,828)</b>

The notes to the financial statements are an integral part of this statement.

## PROPRIETARY FUNDS

### Statement of Cash Flows

Continued

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	Business-Type Activities Enterprise Funds					Governmental Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
<b>Cash Flows from Operating Activities:</b>						
Receipts from customers	\$ 1,406,809	\$ 1,246,855	\$ 1,037,468	\$ 2,008,509	\$ 5,699,641	\$ 716,823
Payments to suppliers	(1,502,735)	(1,743,677)	(550,712)	(1,717,503)	(5,514,627)	(391,780)
Payments to employees	(134,972)	-	(494,253)	(114,431)	(743,656)	(266,203)
Other receipts (payments)	41,860	491,483	72,085	7,293	612,721	46,244
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(189,038)</b>	<b>(5,339)</b>	<b>64,588</b>	<b>183,868</b>	<b>54,079</b>	<b>105,084</b>
<b>Cash Flows from Noncapital Financing Activities:</b>						
Transfers in	296,274	-	155,712	43,070	495,056	44,202
Transfers out	(297,539)	-	(162,742)	(233,971)	(694,252)	(37,775)
Operating grants and donations received	7,322	124	7,026	2	14,474	896
Taxes and license fees collected	5	-	-	136,523	136,528	-
Distributions to other governments	-	-	-	(34,951)	(34,951)	-
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>6,062</b>	<b>124</b>	<b>(4)</b>	<b>(89,327)</b>	<b>(83,145)</b>	<b>7,323</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Interest paid	(2,389)	-	(33,173)	(13,774)	(49,336)	(3,442)
Principal payments on long-term capital financing	(2,723)	-	(37,462)	(46,174)	(86,359)	(6,276)
Proceeds from long-term capital financing	-	-	137,595	30,725	168,320	4,857
Proceeds from sale of capital assets	-	-	35,683	1,952	37,635	41,879
Acquisitions of capital assets	(5,487)	-	(145,175)	(4,242)	(154,904)	(127,619)
<b>Net Cash or Pooled Investments Provided by (Used in) Capital and Related Financing Activities</b>	<b>(10,599)</b>	<b>-</b>	<b>(42,532)</b>	<b>(31,513)</b>	<b>(84,644)</b>	<b>(90,601)</b>
<b>Cash Flows from Investing Activities:</b>						
Receipt of interest	423,964	60,132	20,612	(2,109)	502,599	2,257
Proceeds from sale of investment securities	5,670,702	-	47,313	333,967	6,051,982	1,834
Purchases of investment securities	(5,874,539)	-	(50,965)	(351,653)	(6,277,157)	(2,125)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>220,127</b>	<b>60,132</b>	<b>16,960</b>	<b>(19,795)</b>	<b>277,424</b>	<b>1,966</b>
<b>Net Increase (Decrease) in Cash and Pooled Investments</b>	<b>26,552</b>	<b>54,917</b>	<b>39,012</b>	<b>43,233</b>	<b>163,714</b>	<b>23,772</b>
Cash and Pooled Investments, July 1	-	1,071,228	303,423	284,284	1,658,935	141,523
<b>Cash and Pooled Investments, June 30</b>	<b>\$ 26,552</b>	<b>\$ 1,126,145</b>	<b>\$ 342,435</b>	<b>\$ 327,517</b>	<b>\$ 1,822,649</b>	<b>\$ 165,295</b>
<b>Cash Flows from Operating Activities:</b>						
Operating Income (Loss)	\$ (871,002)	\$ 50,626	\$ 25,434	\$ 138,721	\$ (656,221)	\$ 30,985
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:</b>						
Depreciation	6,261	-	51,116	16,584	73,961	53,449
Provision for uncollectible accounts	8,019	-	5,903	13	13,935	24
Other non-cash items	(21,507)	-	-	-	(21,507)	-
<b>Change in Assets: Decrease (Increase)</b>						
Receivables (net of allowance)	(45,311)	(56,981)	(13,027)	(31,785)	(147,104)	2,884
Inventories	5	-	(1,736)	(5,253)	(6,984)	(1,314)
Prepaid expenses	26	-	433	276	735	(311)
<b>Change in Liabilities: Increase (Decrease)</b>						
Payables	734,471	1,016	(3,535)	65,312	797,264	19,367
<b>Net Cash or Cash Equivalents Provided by (Used in) Operating Activities</b>	<b>\$ (189,038)</b>	<b>\$ (5,339)</b>	<b>\$ 64,588</b>	<b>\$ 183,868</b>	<b>\$ 54,079</b>	<b>\$ 105,084</b>

The notes to the financial statements are an integral part of this statement.

## PROPRIETARY FUNDS

### Statement of Cash Flows

Concluded

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	Business-Type Activities				Governmental	
	Enterprise Funds				Activities	
			Higher Education	Nonmajor	Internal	
	Workers'	Unemployment	Student	Enterprise	Service	
Compensation	Compensation	Services	Funds	Total	Funds	
<b>Noncash Investing, Capital and Financing Activities:</b>						
Contributions of capital assets	\$ -	\$ -	\$ 31	\$ 4,272	\$ 4,303	\$ 3,674
Amortization of long-term lotto prize liability	-	-	-	34,132	34,132	-
Increase (decrease) in fair value of investments	(252,659)	-	(137)	(65,114)	(317,910)	(91)
Refunding bonds issued	-	-	4,380	-	4,380	-
Refunded bonds redeemed	-	-	4,160	-	4,160	-
Gain (loss) on on refunding activity	-	-	387	-	387	-
Amortization of debt premium (issue costs/discount)	-	-	(25)	-	(25)	-
Accretion of interest on zero coupon bonds	-	-	-	2,901	2,901	-

The notes to the financial statements are an integral part of this statement.

## FIDUCIARY FUNDS

### Statement of Fiduciary Net Assets

June 30, 2004

(expressed in thousands)

	Private- Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
<b>Assets:</b>				
Cash and pooled investments	\$ 5,233	\$ 2,747,577	\$ 44,094	\$ 279,758
Investments	-	2,463,130	-	1,500
Other receivables (net of allowance)	4,654	4,747	195,195	99,771
Due from other funds	91	-	24,888	490,619
Due from other governments	-	-	48,028	26,787
<b>Total Current Assets</b>	<b>9,978</b>	<b>5,215,454</b>	<b>312,205</b>	<b>898,435</b>
<b>Noncurrent Assets:</b>				
Investments, noncurrent	28,299	298,799	49,958,322	193,186
Other noncurrent assets	-	-	-	67,269
<b>Capital Assets:</b>				
Furnishings, equipment, and collections	86	-	-	-
Accumulated depreciation	(78)	-	-	-
<b>Total Noncurrent Assets</b>	<b>28,307</b>	<b>298,799</b>	<b>49,958,322</b>	<b>260,455</b>
<b>Total Assets</b>	<b>\$ 38,285</b>	<b>\$ 5,514,253</b>	<b>\$ 50,270,527</b>	<b>\$ 1,158,890</b>
<b>Liabilities:</b>				
Accounts payable	\$ 3,438	\$ -	\$ -	\$ 15,723
Contracts and retainages payable	-	-	-	19,078
Accrued liabilities	4,065	449,838	84,845	504,281
Obligations under security	-	298,800	3,317,990	25,430
Due to other funds	20	52	26,677	130,604
Due to other governments	-	-	-	391,731
Other long-term liabilities	28,322	-	-	72,043
<b>Total Liabilities</b>	<b>35,845</b>	<b>748,690</b>	<b>3,429,512</b>	<b>\$ 1,158,890</b>
<b>Net Assets:</b>				
Net assets held in trust for:				
Pension benefits	-	-	45,097,255	
Deferred compensation participants	-	-	1,743,760	
Local government pool participants	-	4,765,563	-	
Individuals, organizations & other governments	2,440	-	-	
<b>Total Net Assets</b>	<b>\$ 2,440</b>	<b>\$ 4,765,563</b>	<b>\$ 46,841,015</b>	

The notes to the financial statements are an integral part of this statement.

## FIDUCIARY FUNDS

### Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended June 30, 2004  
(expressed in thousands)

	Private- Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
<b>Additions:</b>			
Contributions:			
Employers	\$ -	\$ -	\$ 174,860
Members	-	-	502,385
State	-	-	31,038
Pool participants	-	11,397,569	147,660
Total Contributions	-	11,397,569	855,943
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	5,453,059
Income (loss) on investing activities	(3)	-	-
Interest and dividends	-	55,755	1,049,743
Less: Investment expenses	-	-	(58,289)
Net Investment Income	(3)	55,755	6,444,513
Other additions:			
Transfers from other pension plans	-	-	25,418
Transfers in	5,483	-	-
Other contracts, grants and miscellaneous	42,453	-	2,636
Total other additions	47,936	-	28,054
<b>Total Additions</b>	<b>47,933</b>	<b>11,453,324</b>	<b>7,328,510</b>
<b>Deductions:</b>			
Pension benefits	-	-	1,949,048
Pension refunds	-	-	110,434
Transfers to other pension plans	-	-	25,418
Transfers out	48,985	-	-
Administrative expenses	2,652	3,287	1,087
Distributions to pool participants	-	11,668,653	73,485
Payments to or on behalf of individuals, organizations and other governments in accordance with trust agreements	267	-	-
<b>Total Deductions</b>	<b>51,904</b>	<b>11,671,940</b>	<b>2,159,472</b>
<b>Net Increase (Decrease)</b>	<b>(3,971)</b>	<b>(218,616)</b>	<b>5,169,038</b>
<b>Net Assets - Beginning, as restated</b>	<b>6,411</b>	<b>4,984,179</b>	<b>41,671,977</b>
<b>Net Assets - Ending</b>	<b>\$ 2,440</b>	<b>\$ 4,765,563</b>	<b>\$ 46,841,015</b>

The notes to the financial statements are an integral part of this statement.

## COMPONENT UNITS

### Statement of Fund Net Assets

June 30, 2004

(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
<b>Assets</b>			
<b>Current Assets:</b>			
Cash and pooled investments	\$ 4,160	\$ 2,775	\$ 6,935
Investments	-	30,262	30,262
Other receivables (net of allowance)	7	1,391	1,398
Prepaid expenses	30	322	352
<b>Total Current Assets</b>	<b>4,197</b>	<b>34,750</b>	<b>38,947</b>
<b>Noncurrent Assets:</b>			
Investments, noncurrent	21,676	2,123	23,799
Other noncurrent assets	-	19,765	19,765
<b>Capital Assets:</b>			
Land	34,677	-	34,677
Buildings	450,745	-	450,745
Furnishings and equipment	25,605	1,144	26,749
Accumulated depreciation	(43,900)	(872)	(44,772)
<b>Total Noncurrent Assets</b>	<b>488,803</b>	<b>22,160</b>	<b>510,963</b>
<b>Total Assets</b>	<b>\$ 493,000</b>	<b>\$ 56,910</b>	<b>\$ 549,910</b>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Accounts payable	\$ 191	\$ 1,514	\$ 1,705
Contracts and retainages payable	2,342	-	2,342
Accrued liabilities	36	79	115
Deferred revenues	-	759	759
<b>Total Current Liabilities</b>	<b>2,569</b>	<b>2,352</b>	<b>4,921</b>
<b>Non-Current Liabilities:</b>			
Other long-term liabilities	37,000	-	37,000
<b>Total Non-Current Liabilities</b>	<b>37,000</b>	<b>-</b>	<b>37,000</b>
<b>Total Liabilities</b>	<b>39,569</b>	<b>2,352</b>	<b>41,921</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	427,785	272	428,057
Restricted for deferred sales tax	21,676	-	21,676
Restricted for other purposes	-	600	600
Unrestricted	3,970	53,686	57,656
<b>Total Net (Deficit) Assets</b>	<b>\$ 453,431</b>	<b>\$ 54,558</b>	<b>\$ 507,989</b>

The notes to the financial statements are an integral part of this statement.

## COMPONENT UNITS

### Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the Fiscal Year Ended June 30, 2004  
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
<b>Program Revenues:</b>			
Charges for services	\$ 868	10,271	\$ 11,139
Operating grants and contributions	-	369	369
Capital grants and contributions	500	-	500
<b>Total Program Revenues</b>	<b>1,368</b>	<b>10,640</b>	<b>12,008</b>
<b>Expenses:</b>			
<b>Operating Expenses:</b>			
Salaries and wages	313	3,752	4,065
Employee benefits	53	946	999
Personal services	147	596	743
Goods and services	160	2,675	2,835
Travel	4	24	28
Depreciation and amortization	18,562	125	18,687
Miscellaneous expenses	1,504	14	1,518
<b>Total Operating Expenses</b>	<b>20,743</b>	<b>8,132</b>	<b>28,875</b>
<b>Nonoperating Expenses:</b>			
Pass through grants	-	369	369
Interest	-	738	738
<b>Total Nonoperating Expenses</b>	<b>-</b>	<b>1,107</b>	<b>1,107</b>
<b>Total Expenses</b>	<b>20,743</b>	<b>9,239</b>	<b>29,982</b>
<b>General Revenues:</b>			
Earnings (loss) on investments	(20)	36	16
<b>Total General Revenues</b>	<b>(20)</b>	<b>36</b>	<b>16</b>
<b>Change in Net Assets</b>	<b>(19,395)</b>	<b>1,437</b>	<b>(17,958)</b>
<b>Net Assets - Beginning</b>	<b>472,826</b>	<b>53,121</b>	<b>525,947</b>
<b>Net Assets - Ending</b>	<b>\$ 453,431</b>	<b>\$ 54,558</b>	<b>\$ 507,989</b>

The notes to the financial statements are an integral part of this statement.



## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2004

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## Note 1 - Summary of Significant Accounting Policies

The accompanying financial statements of the state of Washington have been prepared in conformity with generally accepted accounting principles (GAAP). The Office of Financial Management (OFM) is the primary authority for the state's accounting and reporting requirements. OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. For government-wide and enterprise fund reporting, the state follows only those private-sector standards issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB. Following is a summary of the significant accounting policies:

### A. Reporting Entity

In evaluating how to define the state of Washington, for financial reporting purposes, management has considered: all funds, organizations, institutions, agencies, departments, and offices that are legally part of the state (the primary government); organizations for which the state is financially accountable; and other organizations for which the nature and significance of their relationship with the state are such that exclusion would cause the state's financial statements to be misleading or incomplete.

Financial accountability exists when the primary government appoints a voting majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, to levy taxes or set rates or charges without substantive approval by another government, or to issue bonded debt without substantive approval by another government.

Based on these criteria, the following are included in the financial statements of the primary government:

**STATE AGENCIES** - Except as otherwise described herein, all state elected offices, departments, agencies, commissions, boards, committees, authorities, and councils (agencies) and all funds and subsidiary accounts of the state are included in the primary government. Executives of these agencies are either elected, directly appointed by the Governor, appointed by a board which is appointed by the Governor, or appointed by a board which is in part appointed by the Governor.

Additionally, a small number of board positions are established by statute or independently elected. The state Legislature creates these agencies, assigns their programs, approves operational funding, and requires financial accountability. The Legislature also authorizes all bond issuances for capital construction projects for the benefit of state agencies. The legal liability for these bonds and the ownership of agency assets resides with the state.

**COLLEGES AND UNIVERSITIES** - The governing boards of the five state universities, the state college, and the 34 state community and technical colleges are appointed by the Governor. Each college's governing board appoints a president to function as chief administrator. The state Legislature approves budgets and budget amendments for the colleges' appropriated funds, which include the state's General Fund as well as certain capital projects funds. The state Treasurer issues general obligation debt for major campus construction projects. However, the colleges are authorized to issue revenue bonds for construction of facilities for certain revenue generating activities such as housing, dining, and parking. These revenue bonds are payable solely from and secured by fees and revenues derived from the operation of constructed facilities; the legal liability for the bonds and the ownership of the college assets reside with the state. Colleges do not have separate corporate powers and sue and are sued as part of the state with legal representation provided through the state Attorney General's Office. Since the colleges are legally part of the state, their financial operations, including their blended component units, are reported in the primary government financial statements using the fund structure prescribed by GASB, not discretely reported according to the fund structure of the American Institute of Certified Public Accountants college and university reporting model.

**RETIREMENT SYSTEMS** - The state of Washington, through the Department of Retirement Systems, administers seven retirement systems for public employees of the state and political subdivisions: the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, the Judicial Retirement System, and the Judges' Retirement Fund. The director of the Department of Retirement Systems is appointed by the Governor.

There are two additional retirement systems administered outside of the Department of Retirement Systems. The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund is administered through the Board for Volunteer Fire Fighters, which is appointed by the Governor. The Judicial Retirement Account is administered through the Administrator for the Courts under the direction of the Board for Judicial Administration.

The state Legislature establishes laws pertaining to the creation and administration of all public retirement systems. The participants of the public retirement systems together with the state provide funding for all costs of the systems based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels.

All nine of the aforementioned retirement systems are included in the primary government's financial statements.

#### BLENDING COMPONENT UNIT

Blended component units, although legally separate entities, are part of the state's operations in substance. Accordingly, they are reported as part of the state and blended into the appropriate funds. The following is blended in the state's financial statements:

**Tobacco Settlement Authority (TSA)** – The TSA was created by the Washington State Legislature in March 2002 as a public instrumentality separate and distinct from the state. It is governed by a five-member board appointed by the governor. It was created to issue bonds to securitize a portion of the state's future tobacco settlement revenue in order to generate funds for increased costs of health care, long-term care, and other programs of the state. In November 2002, the TSA issued \$517 million in bonds and transferred \$450 million to the state in exchange for 29.2 percent of the state's tobacco settlement revenue stream for the estimated 17-year period that the bonds remain outstanding.

Financial reports for the TSA may be obtained from the authority at the following address:

Tobacco Settlement Authority  
1000 Second Ave, Suite 2700  
Seattle, WA 98104-1046

#### DISCRETE COMPONENT UNITS

Discretely presented component units are reported in a separate column in the government-wide financial statements. Discretely presented component units are legally separate from the state and primarily serve or benefit those outside of the state. They are financially accountable to the state, or have relationships with the state such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These entities are reported as discrete component units because state officials either serve on or appoint the members of the governing bodies of the authorities. The state also has the ability to influence the operations of the authorities through legislation. The following entities are discretely presented in the financial statements of the state in the component units column:

The Washington State Housing Finance Commission, the Washington Higher Education Facilities Authority, the Washington Health Care Facilities Authority, and the Washington Economic Development Finance Authority (financing authorities) were created by the state Legislature in a way that specifically prevents them from causing the state to be liable or responsible for their acts and obligations, including, but not limited to, any obligation to pay principal and interest on financing authority bonds. The financing authorities cannot obligate the state, either legally or morally, and the state has not assumed any obligation of, or with respect to, the financing authorities.

Financial reports of these financing authorities may be obtained from each authority at the following addresses:

Washington Health Care Facilities Authority  
410 - 11th Avenue SE, Suite 201  
PO Box 40935  
Olympia, WA 98504-0935

Washington State Housing Finance Commission  
Washington Higher Education Facilities Authority  
Washington Economic Development Finance Authority  
1000 Second Avenue, Suite 2700  
Seattle, WA 98104-1046

The Washington State Public Stadium Authority (PSA) was created by the state Legislature to acquire, construct, own, and operate a football/soccer stadium, exhibition center, and parking garage. Construction was completed in 2002. PSA capital assets, net of accumulated depreciation, total \$467 million. The state issued general

obligation bonds for a portion of the cost of the stadium construction. The total public share of the stadium and exhibition center cost did not exceed \$300 million from all state and local government funding sources, as defined in statute. Project costs in excess of \$300 million were the responsibility of the project's private partner, First & Goal, Inc. The bonds are being repaid through new state lottery games, a state sales tax credit, extension of the local hotel/motel tax, and parking and admissions taxes at the new facility. Financial reports of the PSA may be obtained at the following address:

Washington State Public Stadium Authority  
401 Second Avenue South, Suite 520  
Seattle, WA 98104-0280

## B. Government-wide and Fund Financial Statements

### Government-wide Financial Statements

The state presents two basic government-wide financial statements: the Statement of Net Assets and the Statement of Activities. These government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. The financial information for the primary government is distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

**Statement of Net Assets** – The Statement of Net Assets presents the state's non-fiduciary assets and liabilities. As a general rule, balances between governmental and business-type activities are eliminated.

Assets and liabilities are presented in a net assets format in order of liquidity. Net assets are classified into three categories:

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- Restricted net assets result when constraints are placed on net asset use either by external parties or by law through constitutional provision or enabling legislation.

- Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories.

**Statement of Activities** - The Statement of Activities reports the extent to which each major state program is supported by general state revenues or is self-financed through fees and intergovernmental aid. For governmental activities, a major program is defined as a function. For business-type activities, a major program is an identifiable activity.

Program revenues offset the direct expenses of major programs. Direct expenses are those that are clearly identifiable within a specific function or activity. Program revenues are identified using the following criteria:

- Charges to customers for goods and services of the program. A customer is one who directly benefits from the goods or services or is otherwise directly affected by the program, such as a state citizen or taxpayer, or other governments or nongovernmental entities.
- Amounts received from outside entities that are restricted to one or more specific program. These amounts can be operating or capital in nature.
- Earnings on investments that are restricted to a specific program are also considered program revenues.

General revenues consist of taxes and other items not meeting the definition of program revenues.

Generally the effect of internal activities is eliminated. Exceptions to this rule include charges between the health insurance and workers' compensation insurance programs and various other state programs and functions. Elimination of these charges would distort the direct costs and revenues reported for the various activities involved.

### Fund Financial Statements

The state uses 536 accounts that are combined into 55 rollup funds. The state presents separate financial statements for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements, with nonmajor funds being combined into a single column regardless of fund type. Internal service and fiduciary funds are reported by fund type. Major funds include:

### Major Governmental Funds:

- **General Fund** is the state's primary operating fund. This fund accounts for all financial resources and transactions not accounted for in other funds.
- **Higher Education Special Revenue Fund** primarily accounts for grants and contracts received for research and other educational purposes. This fund also accounts for charges for services by state institutions of higher education.
- **Higher Education Endowment Permanent Fund** accounts for gifts and bequests that the donors have specified must remain intact. Each gift is governed by various restrictions on the investment and use of the funds.
- **Debt Service Funds** account for the accumulation of resources for, and the payment of, principal and interest on the state's bonds issued in support of governmental activities.
- **Capital Projects Funds** account for the acquisition, construction, or improvement of major capital facilities including higher education facilities.
- **Common School Permanent Fund** accounts for the principal derived from the sale of timber. Interest earned is used for the benefit of common schools.

### Major Enterprise Funds:

- **Workers' Compensation Fund** accounts for the workers' compensation program that provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.
- **Unemployment Compensation Fund** accounts for the unemployment compensation program. It accounts for the deposit of funds requisitioned from the Federal Unemployment Trust Fund, to provide services to eligible participants within the state, and to pay unemployment benefits.
- **Higher Education Student Services Fund** is used by colleges and universities principally for bookstore, cafeteria, parking, student housing, food service, and hospital business enterprise activities.

The state includes the following governmental and proprietary fund types within nonmajor funds:

### Nonmajor Governmental Funds:

- **Special Revenue Funds** account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments, or for major capital projects) that are legally restricted to expenditures for specific purposes. These include a variety of state programs including public safety and health assistance programs; natural resource and wildlife protection and management programs; the state's transportation programs which include the operation of the state's ferry system and maintenance and preservation of non-interstate highway system; K-12 school construction; and construction and loan programs for local public works projects.

### Nonmajor Proprietary Funds:

- **Enterprise Funds** account for the state's business type operations for which a fee is charged to external users for goods or services including: the health insurance program; the state lottery; state liquor stores; the guaranteed college tuition program; and the convention and trade center.
- **Internal Service Funds** account for the provision of legal, motor pool, data processing, risk management, and other services by one department or agency to other departments or agencies of the state on a cost-reimbursement basis.

The state reports the following fiduciary funds:

- **Pension (and other employee benefit) Trust Funds** are used to report resources that are required to be held in trust by the state for the members and beneficiaries of defined benefit pension plans, defined contribution pension plans, and other employee benefit plans.
- **Investment Trust Fund** accounts for the external portion of the Local Government Investment Pool (LGIP), which is reported by the state as the sponsoring government.
- **Private-Purpose Trust Funds** are used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments such as the administration of unclaimed property.
- **Agency Funds** account for resources held by the state in a custodial capacity for other governments, private organizations or individuals.

### **Operating and Nonoperating Revenues and Expenses**

– The state’s proprietary funds make a distinction between operating and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing goods and services directly related to the principal operations of the funds. For example, operating revenues for the state’s workers’ compensation and health insurance funds consist of premiums collected and investment earnings. Operating expenses consist of claims paid to covered individuals, claims adjustment expenses, costs of commercial insurance coverage and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating, including interest expense and investment gains and losses.

### **Application of Restricted/Unrestricted Resources –**

When both restricted and unrestricted resources are available for use, it is the state’s policy to use restricted resources first and then use unrestricted resources as they are needed.

### **C. Measurement Focus and Basis of Accounting**

For government-wide reporting purposes, the state uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

For fund statement reporting purposes, the state uses the current financial resources measurement focus and modified accrual basis of accounting for governmental funds. With the current financial resources measurement focus, generally only current assets and current liabilities are included on the governmental funds balance sheet. Operating statements for these funds present inflows (i.e., revenues and other financing sources) and outflows (i.e., expenditures and other financing uses) of expendable financial resources.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be reasonably estimated. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary revenues that are determined to be susceptible to accrual include sales taxes, business and occupation taxes, motor fuel taxes, federal grants-in-aid, and charges for services.

Revenues from property taxes are determined to be available if collected within 60 days. Taxes imposed on exchange transactions are accrued when the underlying exchange transaction occurs if collectible within one year. Revenue for timber cutting contracts is accrued when the timber is harvested. Revenues from licenses, permits, and fees are recognized when received in cash. Revenues related to expenditure driven grant agreements are recognized when both the qualifying expenditures are made and the revenues are considered available. Pledges are accrued when the eligibility requirements are met provided that they are verifiable, unconditional, probable of collection, measurable and available. All other accrued revenue sources are determined to be available if collectible within 12 months.

Property taxes are levied in December for the following calendar year. The first half-year collections are due by April 30, and the second half-year collections are due by October 31. Since the state is on a fiscal year ending June 30, the first half-year collections are recognized as revenue, if collected within 60 days of the fiscal year end. The second half-year collections are recognized as receivables offset by deferred revenue. The lien date on property taxes is January 1 of the tax levy year.

Under modified accrual accounting, expenditures are recognized when the related liability is incurred. Exceptions to the general modified accrual expenditure recognition criteria include unmatured interest on general long-term obligations which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The state reports deferred revenues on its governmental fund balance sheet under certain conditions. Deferred revenues arise when a potential revenue does not meet both the “measurable” and the “available” criteria for revenue recognition in the current period. Deferred revenues also arise when resources are received by the state before it has a legal claim to them, such as when grant monies are received prior to the incurrence of qualifying expenditures.

All proprietary and trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of these funds are included on their respective statements of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. Net assets are presented as 1) invested in capital assets, net of related debt, 2) restricted and 3) unrestricted.

All proprietary and trust funds are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

## **D. Assets, Liabilities, and Net Assets or Equity**

### **1. Cash and Investments**

Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Assets, Balance Sheets and Statements of Cash Flows as “Cash and Pooled Investments.” The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. As a result, the cash balances of funds with surplus pooled balances are not reduced for these investments. For reporting purposes, pooled cash is stated at fair value or amortized cost, which approximates fair value. For the purposes of the Statement of Cash Flows, the state considers cash and short-term, highly-liquid investments, that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates, to be cash equivalents.

The method of accounting for noncurrent investments varies depending upon the fund classification. Investments in the state’s Local Government Investment Pool (LGIP), an external investment pool operated in a manner consistent with the SEC’s Rule 2a-7 of the Investment Company Act of 1940, are reported at amortized cost. The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, phone number (360) 902-9000 or TTY (360) 902-8963.

Long-term investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges and security pricing services, or by the respective fund managers for securities that are not actively traded. Privately held mortgages are valued at cost, which approximates fair value. Certain pension trust fund investments, including real estate and private equity, are valued based on appraisals or independent advisors. Additional disclosure describing investments is provided in Note 3.

### **2. Receivables and Payables**

Receivables in the state’s governmental funds consist primarily of taxes and federal revenues. Receivables in all other funds have arisen in the ordinary course of business. Receivables are recorded when either the asset or revenue recognition criteria (refer to Note 1.C) have

been met. All receivables are reported net of an allowance for accounts estimated to be uncollectible.

For government-wide reporting purposes, amounts recorded as interfund/interagency receivables and payables are eliminated in the governmental and business-type activities columns on the Statement of Net Assets, except for the net residual balances due between the governmental and business-type activities, which are reported as internal balances. Amounts recorded in governmental and business-type activities as due to or from fiduciary funds have been reported as due to or from other governments.

### **3. Inventories**

Consumable inventories, consisting of expendable materials and supplies held for consumption, are valued and reported in the state’s financial statements if the fiscal year-end balance on hand within an agency is estimated to be \$25,000 or more. Consumable inventories are generally valued at cost using the weighted average method. Donated consumable inventories are recorded at fair market value.

Merchandise inventories are generally valued at cost using the first-in, first-out method. All merchandise inventories are considered reportable for financial statement purposes.

Inventories of governmental funds are valued at cost and recorded using the consumption method. Proprietary funds expense inventories when used or sold.

For governmental fund financial reporting, inventory balances are also recorded as a reservation of fund balance indicating that they do not constitute “available spendable resources” except for \$1.7 million in federally donated consumable inventories, which are offset by deferred revenues because they do not constitute an “available” resource until consumed.

### **4. Capital Assets**

Except as noted below, it is the state’s policy to capitalize:

- all land;
- all additions and improvements to the state highway system;
- infrastructure, other than the state highway system, with a cost of \$100,000 or more;
- all other capital assets with a unit cost of \$5,000 or more.
- Capital assets acquired by capital leases with a net present value or fair market value, whichever is less, of less than \$10,000 are not capitalized.

Purchased capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Capital asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of the state's capital assets are not capitalized.

Donated capital assets are valued at their estimated fair market value on the date of donation, plus all appropriate ancillary costs. When the fair market value is not practically determinable due to lack of sufficient records, estimated cost is used. Where necessary, estimates of original cost and fair market value are derived by factoring price levels from the current period to the time of acquisition.

The value of assets constructed by agencies for their own use includes all direct construction costs and indirect costs that are related to the construction. In proprietary and trust funds, net interest costs (if material) incurred during the period of construction are capitalized.

Art collections, library reserve collections, and museum and historical collections, that are considered inexhaustible in that their value does not diminish over time, are not capitalized by the state if all of the following conditions are met:

- The collection is held for public exhibition, education or research in furtherance of public service, rather than financial gain.
- The collection is protected, kept unencumbered, cared for, and preserved.
- The collection is subject to policy requirements that the proceeds from sales of collection items be used to acquire other items for the collection.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Generally, estimated useful lives are as follows:

Buildings & building components	5-50 years
Furnishings, equipment & collections	3-50 years
Other improvements	3-50 years
Infrastructure	20-50 years

The cost and related accumulated depreciation of capital assets retired from service, or disposed of, are removed from the accounting records.

The state capitalizes the state highway system as a network but does not depreciate it since the system is being preserved approximately at or above a condition level established by the state. That condition level is documented and disclosed. Additionally, the highway

system is managed using an asset management system that includes:

- Maintenance of an up-to-date inventory of system assets,
- Performance of condition assessments of the assets at least every three years with summarization of the results using a measurement scale, and
- Annual estimation of the amount to maintain and preserve the assets at the condition level established and disclosed.

All state highway system expenditures that preserve the useful life of the system are expensed in the period incurred. Additions and improvements that increase the capacity or efficiency of the system are capitalized. This approach of reporting condition instead of depreciating the highway system is called the Modified Approach.

For government-wide financial reporting purposes, capital assets of the state are reported as assets in the applicable governmental or business-type activities column on the Statement of Net Assets. Depreciation expense related to capital assets is also reported in the Statement of Activities. Capital assets and the related depreciation expense are also reported in the proprietary fund financial statements.

In governmental funds, capital assets are not capitalized in the accounts that acquire or construct them. Instead, capital acquisitions and construction are reflected as expenditures in the year acquired. No depreciation is reported.

## 5. Compensated Absences

State employees accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 30 days at the employee's anniversary date.

Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e., the state does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the state is liable for 25 percent of the employee's accumulated sick leave. In addition, the state has a "sick leave buyout option" in which each January, employees who accumulate sick leave in excess of 60 days may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave.

It is the state's policy to liquidate unpaid compensated absences leave outstanding at June 30 with future resources rather than advance funding it with currently available expendable financial resources.



For government-wide reporting purposes, the state reports compensated absences obligations as liabilities in the applicable governmental or business-type activities columns on the Statement of Net Assets.

For fund statement reporting purposes, governmental funds recognize an expenditure for annual and sick leave when it is paid. Proprietary and trust funds recognize the expense and accrue a liability for annual leave and estimated sick leave buyout, including related payroll taxes and benefits as applicable, as the leave is earned.

## 6. Long-Term Liabilities

In the government-wide and proprietary fund financial statements, long-term obligations of the state are reported as liabilities on the Statement of Net Assets. Bonds payable are reported net of applicable original issuance premium or discount. When material, bond premiums, discounts, and issue costs are deferred and amortized over the life of the bonds.

For governmental fund financial reporting, the face (par) amount of debt issued is reported as other financing sources. Original issuance premiums and discounts on debt issuance are also reported as other financing sources and uses respectively. Issue costs are reported as debt service expenditures.

## 7. Fund Equity

In the fund financial statements, governmental funds report the difference between fund assets and fund liabilities as “fund balance.” Reserved fund balance represents that portion of fund balance that is: (1) not available for appropriation or expenditure, and/or (2) legally segregated for a specific future use. Unreserved, designated fund balance indicates tentative plans for future use of financial resources. Unreserved, undesignated fund balance represents the amount available for appropriation.

In proprietary funds, fund equity is called net assets. Net assets is comprised of three components – invested in capital assets, net of related debt; restricted; and unrestricted.

## E. Other Information

### 1. General Budgetary Policies and Procedures

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedules presented as Required Supplementary Information (RSI) are not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial

schedules extremely cumbersome. Section 2400.121 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases. For the state of Washington, a separate report has been prepared for the 2003-2005 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at agency and appropriation level are presented in Report CAF1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 6639 Capitol Boulevard, PO Box 43113, Olympia, Washington 98504-3113. For additional budgetary information, please refer to the notes to RSI presented later in this report.

## 2. Insurance Activities

### Workers' Compensation

Title 51 RCW establishes the state of Washington's workers' compensation program. The statute requires all applicable employers to insure payment of benefits for job related injuries and diseases through the Workers' Compensation Fund or through self-insurance. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations through private insurers.

The Workers' Compensation Fund, an enterprise fund, is used to account for the workers' compensation program which provides time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries. The main benefit plans of the workers' compensation program are funded based on rates that will keep these plans solvent in accordance with recognized actuarial principles. The supplemental pension cost-of-living adjustments (COLA) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

Premiums are based on individual employers' reported payroll hours and insurance rates based on each employer's risk classification(s) and past experience. In addition to its regular premium plans, the Workers' Compensation Fund offers a retrospective premium rating plan under which premiums are adjusted annually for up to four years following the plan year based on individual employers' loss experience. Initial adjustments to the standard premiums are paid to or collected from the employers approximately ten months after the end of each plan year.

The Workers' Compensation Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that

have been incurred but not reported (IBNR). The length of time for which such costs must be estimated varies depending on the benefit involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liabilities, claims adjudication, and judgments, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic, legal, and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

#### Risk Management

Washington State operates a risk management liability program pursuant to RCW 4.92.130. The state manages its tort claims as an insurance business activity rather than a general governmental activity. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. A limited amount of commercial insurance is purchased for employee bonds and to limit the exposure to catastrophic losses. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Otherwise, the risk management liability program services all claims against the state for injuries and property damage to third parties. The majority of state funds and agencies participate in the risk management liability program in proportion to the anticipated exposure to liability losses.

#### Health Insurance

The state of Washington administers and provides medical, dental, basic life, and long-term disability insurance coverage for eligible state employees. In addition, the state offers coverage to K-12 school districts, educational service districts, political subdivisions and employee organizations representing state civil service workers. The state establishes eligibility requirements and approves plan benefits of all participating health care organizations.

The state's share of the cost of coverage for state employees is based on a per capita amount determined

annually by the Legislature and allocated to state agencies. The Health Care Authority, as administrator of the health care benefits program, collects this monthly "premium" from agencies for each active employee enrolled in the program. State employees self-pay for coverage beyond the state's contribution. Cost of coverage for non-state employees is paid by their respective employers. Most coverage is also available on a self-paid basis to eligible retirees, former employees, and employees who are temporarily not in pay status.

The state secures commercial insurance for certain coverage offered, but self-insures the risk of loss for the Uniform Medical Plan. The Uniform Medical Plan enrolled 45 percent of the eligible subscribers in Fiscal Year 2004. Claims are paid from premiums collected, and claims adjudication is contracted through a third-party administrator. Considerations in calculating liabilities include frequency of claims, administrative costs, industry inflation trends, advances in medical technology, and other social and economic factors. Liabilities include an amount for claims incurred but not reported.

### **3. Interfund/Interagency Activities**

The state engages in two major categories of interfund/interagency activity: reciprocal and nonreciprocal.

Reciprocal interfund/interagency activity is the internal counterpart to exchange and exchange-like transactions and includes both interfund loans and services provided and used. Nonreciprocal activity is nonexchange in nature and includes both transfers and reimbursements.

### **4. Donor-restricted Endowments**

The state reports endowments in higher education endowment permanent accounts. These accounts are established outside of the state treasury for use by the higher education institutions. State law permits the governing boards of the institutions to appropriate for expenditure as much of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment fund as is deemed prudent under the facts and circumstances prevailing at the time.

Generally, the institutions use a 5 percent spending rate policy for authorizing and spending investment income.

The net appreciation available for authorization for expenditure by the governing board totaled \$98.4 million and is reported in the nonexpendable portion of the reserve for permanent funds.

## Note 2 - Accounting and Reporting Changes

Fund equity at July 1, 2003, has been restated as follows (expressed in thousands):

	Fund equity at June 30, 2003, as previously reported	Fund Reclassification	Prior Period Adjustment	Fund equity as restated, July 1, 2003
<b>Governmental Funds:</b>				
General	\$ 1,368,201	-	-	\$ 1,368,201
Higher Education Special Revenue	952,690	49,913	-	1,002,603
Higher Education Endowment	1,744,473	-	-	1,744,473
Nonmajor Governmental	3,136,256	62,454	36,028	3,234,738
<b>Proprietary Funds:</b>				
Enterprise Funds:				
Workers' Compensation	(6,246,013)	-	-	(6,246,013)
Unemployment Compensation	1,513,465	-	-	1,513,465
Higher Education Student Services	-	810,288	(508)	809,780
Nonmajor Enterprise Funds	764,103	(368,854)	-	395,249
Internal Service Funds:				
Nonmajor Internal Service Funds	(106,966)	(11,352)	8,277	(110,041)
<b>Fiduciary Funds:</b>				
Private Purpose Trust	62,816	(56,405)	-	6,411
Local Government Investment Pool	4,984,179	-	-	4,984,179
Pension and Other Employee Benefit Plans	41,671,977	-	-	41,671,977
<b>Component Units:</b>				
Public Stadium	472,826	-	-	472,826
Nonmajor Component Units	53,121	-	-	53,121

**Fund Reclassification** – The state reported the Tobacco Settlement Authority (TSA), a blended component unit, as an enterprise fund in Fiscal Year 2003. With the issuance of GASB Technical Bulletin No. 2004-1 the state discovered that the TSA was more properly recorded as a governmental activity. As a result, certain beginning balances were required to be restated to effect proper fund classification.

The state discovered that certain accounts were misclassified as private purpose trust funds. As a result, certain beginning fund balances were restated to effect proper fund classification.

The Office of the Secretary of State reclassified certain activities to effect a more proper fund classification. Certain activities previously accounted for within an internal service fund were reclassified to a non-major governmental fund and a non-major enterprise fund.

The state reported the Higher Education Student Services Fund as a non-major enterprise fund in Fiscal Year 2003. In Fiscal Year 2004, this fund meets the criteria established by GASB Statement No. 34 to be reported as a major fund and is reclassified accordingly.

**Prior Period Adjustment** – Prior period adjustments of \$45 million and \$19 million respectively were recorded in the following non-major governmental funds: the Human Services Fund and the Tobacco Settlement Securitization Bond Fund. These adjustments properly reflect the accrual of tobacco settlement revenues for Fiscal Year 2003, which were collected in Fiscal Year 2004.

The Department of Ecology recorded a prior period adjustment in the General Obligation Bond Fund, which is a non-major governmental fund. The \$28 million adjustment corrected the prior year recording of a certificates of participation refunding.

The University of Washington recorded a prior period adjustment in the General Services Fund, which is a non-major internal service fund. This adjustment of \$8 million corrected amounts previously recorded as capital lease obligations. The University also recorded a \$.5 million prior period adjustment in the Higher Education Student Services Fund, which is a major enterprise fund.

### Note 3 - Deposits and Investments

As of June 30, 2004, the carrying amount of Washington's cash and investments was \$76.8 billion. Total cash and investments at fiscal year-end amounted to \$77 billion, including cash from outstanding checks and warrants. Of this amount, cash on hand amounted to

\$687 thousand, deposits with financial institutions amounted to \$1.4 billion, and deposits in the federal Unemployment Trust Fund amounted to \$1 billion. The remaining \$ 74.6 billion represented the total carrying amount of investments.

Deposits by type, at June 30, 2004, are as follows (expressed in thousands):

Type of Deposit	Carrying Amount	Bank Balance	Insured/ Collateralized	Uninsured/ Uncollateralized
Demand deposits	\$ 279,326	\$ 409,579	\$ 347,249	\$ 62,330
Certificates of deposit	893,425	893,425	887,425	6,000
Cash with fiscal and escrow agents	81,373	80,493	52,859	27,634
<b>Total Deposits</b>	<b>\$ 1,254,124</b>	<b>\$ 1,383,497</b>	<b>\$ 1,287,533</b>	<b>\$ 95,964</b>

**DEPOSITS** - At fiscal year end, 93.1 percent of the state's deposits with financial institutions were either insured or collateralized, with the remainder uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the state's insured deposits. The Washington Public Deposit Protection Commission (PDPC) provides collateral protection. The PDPC (established under Chapter 39.58 of the Revised Code of Washington) constitutes a multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the PDPC's agent in the name of the collateral pool.

**INVESTMENTS** - The State Investment Board, the Office of the State Treasurer, and the University of Washington manage approximately 96.3 percent of the state's investing activity. Management responsibilities and investment instruments as authorized by statute follow:

**STATE INVESTMENT BOARD (SIB)** - Statute designates SIB as having investment management responsibility for pension funds, the Workers' Compensation Fund, permanent funds (established at statehood), and other specific funds. Pursuant to statute (Chapter 43.33A RCW) and SIB policy, SIB is authorized and invests in the following: Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. government and agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; nondollar bonds; investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability

companies for venture capital, leveraged buy-outs, real estate, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions.

The SIB is authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options, to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. SIB mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with the SIB authority to invest in derivatives, international active equity managers may make limited investment in financial futures, forward contracts, or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2004. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of the use, and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2004, the only derivative securities held directly by SIB were collateralized mortgage obligations (CMO's) of \$2.9 billion.

State law and Board policy permit the SIB to participate in securities lending transactions. The Board has entered into agreements with State Street Corporation (SSC) to act as agent for the SIB in securities lending transactions. As SSC is the custodian bank for the SIB, it is counterparty to securities lending transactions. Therefore, all cash collateral reinvested by SSC is reflected as Category 3 for custodial credit risk disclosure purposes.

Securities were loaned and collateralized by the SIB's agents with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities were denominated in United States dollars, or were securities whose primary trading market was located in the United States, or were sovereign debt that was issued by foreign governments, the collateral requirement was 102 percent of the market value of the securities loaned. When the loaned securities were not denominated in United States dollars or were securities whose primary trading market was not located in the United States, the collateral requirement was 105 percent of the market value of the loaned securities. The collateral held and market value of securities on loan at June 30, 2004 approximated \$4.9 and \$4.8 billion, respectively.

During Fiscal Year 2004, securities lending transactions could be terminated on demand by either the SIB or the borrower. The average term of overall loans was 45 days.

Cash collateral was invested by the SIBs agents in securities issued or guaranteed by the U.S. government, the SIBs short-term investment pool (average weighted maturity of 358 days), or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Noncash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were loaned with the agreement that they could be returned in the future for exchange of the collateral. SSC indemnified the SIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. SSC responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2004, there were no significant violations of legal or contractual provisions nor failures by any borrower to return loaned securities or to pay distributions thereon. Further, the SIB incurred no losses

during Fiscal Year 2004 resulting from a default by either the borrowers or the securities lending agents.

The SIB has entered into a number of agreements that commit the state, upon request, to make additional investment purchases up to a stated amount. As of June 30, 2004, the state had the following unfunded investment commitments (expressed in thousands):

Private equity partnerships	\$ 4,634,432
Real estate	677,372

OFFICE OF THE STATE TREASURER (OST) - The OST operates the state's Cash Management Account for investing cash in excess of daily requirements. Statute authorizes the OST to buy and sell the following types of instruments: U.S. government and agency securities, banker's acceptances, commercial paper, and certificates of deposit with qualified public depositories. Securities underlying repurchase and reverse repurchase agreements are limited to those stated above.

State statutes permit the OST to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST, which has contracted with a lending agent to lend securities, earns a fee for this activity. The OST lending agent lends U.S. Government and U.S. Agency securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent. The cash is invested by the lending agent in repurchase agreements or money market instruments, in accordance with investment guidelines approved by the OST. The securities held as collateral and the securities underlying the cash collateral are held by the custodian. The contract with the lending agent requires them to indemnify the OST if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults.

At June 30, 2004, securities on loan approximated \$886 million. All OST securities on loan were collateralized by cash and other securities and are classified in the schedule of custodial credit risk according to the category for the collateral received on the securities lent. On June 30, 2004, the average life of both the loans and the investment of cash received as collateral was one day.

The OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During Fiscal Year 2004, the OST had no credit risk exposure to

borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST. There were no violations of legal or contractual provisions or any losses resulting from a default of a borrower or lending agent during the fiscal year.

Repurchase agreements are collateralized at 102 percent. The collateral is priced daily and held by the OST's custodian in the state's name. Collateral for mortgage-backed repurchase agreements with a maturity date longer than seven days will be priced at 105 percent of fair value, plus accrued interest. Collateralized Mortgage Obligations (CMO) used as collateral for repurchase agreements must pass the Federal Financial Institutions Examination Council (FFIEC) test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency.

State law also permits the OST to enter into reverse repurchase agreements, which are, by contract, sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities pledged as collateral by the OST underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities. If the dealers default on their obligations to resell these securities to the OST or to provide equal value in securities or cash, the OST would suffer an economic loss equal to the differences between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The OST investment policy limits the amount of reverse repurchase agreements to 30 percent of the total portfolio. During the fiscal year, the OST did not enter into any reverse repurchase agreements and there were no obligations under reverse repurchase agreements outstanding at year-end.

UNIVERSITY OF WASHINGTON – The University's investment policies permit it to lend its securities to

broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The University's custodian lends securities of the type on loan at year-end for collateral in the form of cash or other securities. U.S. securities are loaned versus collateral valued at 102 percent of the fair value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105 percent of the fair value of the securities plus any accrued interest. At year-end, the University has no credit risk exposure to borrowers because the amounts the University owes the borrowers exceed the amounts the borrowers owe the University. The contract with the custodian requires it to indemnify the University if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the University for income distributions by the securities' issuers while the securities are on loan. Either the University or the borrower can terminate all securities loans on demand, although the average term of overall loans is ten days. Cash collateral is invested in a short-term investment pool. The relationship between the maturities of the investment pool and the University's loans is affected by the maturities of the securities loans made by other entities that use the custodian's pool, which the University cannot determine. Non-cash collateral cannot be sold unless the borrower defaults. Securities on loan at June 30, 2004, totaled \$366 million.

The University's investments include certain derivative instruments and structured notes that derive their value from a security, asset, or index. Such investments are governed by the University's Investment Policies and Guidelines, which effectively constrain their use by establishing (a) duration parameters which limit price sensitivity to interest rate fluctuations (market risk), (b) minimum quality ratings at both the security and portfolio level, and (c) a market index as a performance benchmark.

INVESTMENT ACTIVITY - The state's investments are categorized below per GASB Statement No. 3 to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured, registered, or held by the state or its agent in the state's name. Category 2 includes uninsured and unregistered

investments that are held by the counterparties' trust departments or agents in the state's name. Category 3 includes uninsured and unregistered investments held by counterparties, or their trust departments or agents, but not in the state's name.

Investments at June 30, 2004, by investment type, are listed below (expressed in thousands):

Investment Type	Carrying Amount by GASB Categories			Carrying Amount	Fair Value
	1	2	3		
Corporate bonds	\$ 8,981,350	\$ -	\$ 68,716	\$ 9,050,066	\$ 9,041,479
Corporate stocks	4,434,458	-	-	4,434,458	4,434,411
U.S. government securities	2,294,905	-	-	2,294,905	2,221,480
Government securities	648,682	-	332,345	981,027	980,999
Collateralized mortgage obligations	3,010,284	-	-	3,010,284	3,010,259
Repurchase agreements	2,319,927	-	800,000	3,119,927	3,101,927
Asset backed securities	20,257	-	-	20,257	20,254
Commercial paper	499	-	282,616	283,115	282,617
Discount notes	4,677,803	-	-	4,677,803	4,675,322
Municipal bonds	7,507	-	-	7,507	7,511
Variable rate notes	149,986	-	2,004,317	2,154,303	2,154,303
Negotiable certificates of deposit	-	-	1,189,396	1,189,396	1,189,396
Other	161,887	1,174	159,055	322,116	322,118
	<u>\$ 26,707,545</u>	<u>\$ 1,174</u>	<u>\$ 4,836,445</u>	31,545,164	31,442,076
Mutual funds				4,635,945	4,425,607
Mortgages				1,663,449	1,663,449
Real estate				4,196,467	4,194,949
Private equity				6,176,506	6,290,571
Guaranteed investment contracts				576,217	576,217
Investments held by broker-dealers under securities lending programs:					
U.S. government securities				5,290,839	5,290,839
U.S. agency securities				483,364	483,364
Other investments				335,072	335,072
Commingled investment funds					
Foreign				3,398,013	3,398,013
Domestic				16,169,390	16,169,390
Other investment types				116,611	158,014
<b>Total Investments</b>				<u>\$ 74,587,037</u>	<u>\$ 74,427,561</u>

## Note 4 - Receivables and Deferred Revenues

### A. Governmental Funds

#### Taxes Receivable

Taxes receivable at June 30, 2004, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor	Total
				Governmental Funds	
Property	\$ 818,737	\$ -	\$ -	\$ 721	\$ 819,458
Sales	1,139,537	-	-	16,174	1,155,711
Business and occupation	339,616	-	-	-	339,616
Estate	17,948	-	-	-	17,948
Fuel	-	-	-	79,099	79,099
Other	73,166	-	-	6,138	79,304
Subtotals	2,389,004	-	-	102,132	2,491,136
Less: Allowance for uncollectible receivables	27,887	-	-	140	28,027
<b>Total Taxes Receivable</b>	<b>\$ 2,361,117</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 101,992</b>	<b>\$ 2,463,109</b>

#### Other Receivables

Other receivables at June 30, 2004, consisted of the following (expressed in thousands):

Other Receivables	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor	Total
				Governmental Funds	
Public assistance	\$ 1,199,238	\$ -	\$ -	\$ -	\$ 1,199,238
Accounts receivable	16,502	80,717	768	54,706	152,693
Interest	-	7,326	6,970	4,933	19,229
Loans	865	121,806	-	231,568	354,239
Long-term contracts	2,719	-	8,245	107,729	118,693
Miscellaneous	10,997	15,881	8,122	85,623	120,623
Subtotals	1,230,321	225,730	24,105	484,559	1,964,715
Less: Allowance for uncollectible receivables	940,063	17,938	75	21,184	979,260
<b>Total Other Receivables</b>	<b>\$ 290,258</b>	<b>\$ 207,792</b>	<b>\$ 24,030</b>	<b>\$ 463,375</b>	<b>\$ 985,455</b>

Note: Public assistance receivables mainly represent amounts owed the state as a part of the Support Enforcement Program at the Department of Social and Health Services for the amounts due from persons required to pay support for individuals currently on state assistance, and have a low realization expectation. Accordingly, the receivable is offset by a large allowance for uncollectible receivables.

#### Deferred Revenues

Deferred revenues at June 30, 2004, consisted of the following (expressed in thousands):

Deferred Revenues	General Fund	Higher Education Special Revenue	Higher Education Endowment	Nonmajor	Total
				Governmental Funds	
Property taxes	\$ 795,969	\$ -	\$ -	\$ -	\$ 795,969
Other taxes	282,226	-	-	17	282,243
Timber sales	2,719	-	8,245	102,948	113,912
Charges for services	7,612	42,881	-	15,107	65,600
Donable goods	202	-	-	-	202
Miscellaneous	45,097	92,690	506	357,734	496,027
<b>Total Deferred Revenues</b>	<b>\$ 1,133,825</b>	<b>\$ 135,571</b>	<b>\$ 8,751</b>	<b>\$ 475,806</b>	<b>\$ 1,753,953</b>



## B. Proprietary Funds

### Taxes Receivable

Taxes receivable at June 30, 2004, consisted of \$4.7 million in liquor taxes reported in Nonmajor Enterprise Funds.

### Other Receivables

Other receivables at June 30, 2004, consisted of the following (expressed in thousands):

Other Receivables	Business-Type Activities				Total	Governmental
	Enterprise Funds					Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds		Internal Service Funds
Accounts receivable	\$ 77,111	\$ -	\$ 188,342	\$ 20,878	\$ 286,331	\$ 3,100
Interest	90,804	-	370	2,198	93,372	380
Loans	-	-	4	-	4	-
Miscellaneous	478,591	587,800	11,524	2,675	1,080,590	358
Subtotals	646,506	587,800	200,240	25,751	1,460,297	3,838
Less: Allowance for uncollectible receivables	58,311	98,375	72,895	156	229,737	186
Total Other Receivables	\$ 588,195	\$ 489,425	\$ 127,345	\$ 25,595	\$ 1,230,560	\$ 3,652

### Deferred Revenues

Deferred revenues at June 30, 2004, consisted of the following (expressed in thousands):

Deferred Revenues	Business-Type Activities				Total	Governmental
	Enterprise Funds					Activities
	Workers'	Unemployment	Higher Education	Nonmajor		Internal
	Compensation	Compensation	Student	Enterprise		Service
			Services	Funds		Funds
Charges for services	\$ -	\$ -	\$ 10,906	\$ 233	\$ 11,139	\$ 1,198
Miscellaneous	13,542		19,717	-	33,259	39
Total Deferred Revenues	\$ 13,542	\$ -	\$ 30,623	\$ 233	\$ 44,398	\$ 1,237

## C. Fiduciary Funds

### Other Receivables

Other receivables at June 30, 2004, consisted of the following (expressed in thousands):

Other Receivables	Local			
	Private-Purpose Trust	Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
Accounts receivable	\$ -	\$ -	\$ 2,363	\$ 10,753
Interest	-	4,747	127,008	18,672
Loans	-	-	-	17
Miscellaneous	4,654	-	65,949	70,850
Subtotals	4,654	4,747	195,320	100,292
Less: Allowance for uncollectible receivables	-	-	125	521
<b>Total Other Receivables</b>	<b>\$ 4,654</b>	<b>\$ 4,747</b>	<b>\$ 195,195</b>	<b>\$ 99,771</b>

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## Note 5 - Interfund Balances and Transfers

### A. Interfund Balances

The following balances at June 30, 2004, represent due from and due to balances among all funds and state agencies (expressed in thousands):

Due To	Due From						
	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation	Unemployment Compensation	Higher Education Student Services
General	\$ 57,572	\$ 7,297	\$ -	\$ 42,946	\$ 299	\$ -	\$ -
Higher Educ. Special Revenue	24,532	16,833	-	8,568	46	-	8,921
Higher Education Endowment	-	-	-	-	-	-	-
Nonmajor Governmental Funds	120,023	150	2,203	87,347	1,258	344	25
Workers' Compensation	35	-	-	-	11,165	-	-
Unemployment Compensation	1,839	1,019	-	526	-	-	-
Higher Education Student Services	1,324	17,558	-	-	-	-	6,351
Nonmajor Enterprise Funds	9,993	-	-	550	-	-	30
Internal Service Funds	21,555	747	-	15,957	5,862	-	-
Fiduciary Funds	261,148	449	171,331	19,646	95	-	31,830
<b>Totals</b>	<b>\$ 498,021</b>	<b>\$ 44,053</b>	<b>\$ 173,534</b>	<b>\$ 175,540</b>	<b>\$ 18,725</b>	<b>\$ 344</b>	<b>\$ 47,157</b>

All interfund balances are expected to be paid within one year from the date of the financial statements. These balances resulted from the time lag between the dates

that (1) interfund goods and services were provided and when the payments occurred, and (2) interfund transfers were accrued and when the liquidations occurred.

Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Totals
\$ 6,112	\$ 362	\$ 17,384	\$ 131,972
8,199	4,958	72,228	144,285
-	-	39	39
5,303	1,296	22,893	240,842
-	54	10	11,264
-	-	182	3,566
6,321	91	12,848	44,493
37,508	330	101	48,512
2,753	13,474	953	61,301
206	178	30,715	515,598
\$ 66,402	\$ 20,743	\$ 157,353	\$ 1,201,872

## B. Interfund Transfers

Interfund transfers as reported in the financial statements reflect transfers between agencies and accounts reported within the same fund.

Net transfers between funds for the year ended June 30, 2004, consisted of the following (expressed in thousands):

Transferred From	Transferred To						
	General Fund	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers Compensation Fund	Higher Education Student Services	Nonmajor Enterprise Funds
General Fund	\$ 116,522	\$ 8,369	\$ -	\$ 753,700	\$ -	\$ -	\$ -
Higher Educ. Special Revenue	411	145,077	1,714	76,168	-	-	26,195
Higher Education Endowment	-	16,868	-	26,728	-	-	28
Nonmajor Governmental Funds	88,562	3,521	2,516	578,557	52	-	1,002
Workers' Compensation Fund	-	-	-	1,317	296,222	-	-
Higher Educ. Student Services	-	-	-	-	-	155,712	7,030
Nonmajor Enterprise Funds	53,612	33,452	-	138,067	-	-	8,815
Internal Service Funds	16	626	-	5,111	-	-	-
Private Purpose Funds	48,985	-	-	-	-	-	-
<b>Totals</b>	<b>\$ 308,108</b>	<b>\$ 207,913</b>	<b>\$ 4,230</b>	<b>\$ 1,579,648</b>	<b>\$ 296,274</b>	<b>\$ 155,712</b>	<b>\$ 43,070</b>

Additionally, there are transfers within the state's Pension Funds. The transfers from Pension Funds are into other Pension Funds.

Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts designated for debt service from the funds collecting the receipts to the debt service fund as debt service payments

become due, 3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Liquor Revolving Account and the State Lottery Account as required by law, and 5) transfer amounts to and from the General Fund as required by law.

Internal Service Funds	Private Purpose Funds	Totals
\$ 10,932	\$ 5,483	\$ 895,006
974	-	250,539
-	-	43,624
249	-	674,459
-	-	297,539
-	-	162,742
25	-	233,971
32,022	-	37,775
-	-	48,985
\$ 44,202	\$ 5,483	\$ 2,644,640

## Note 6 - Capital Assets

### A. Governmental Capital Assets

The following is a summary of governmental capital asset activity for the year ended June 30, 2004 (expressed in thousands):

<b>Capital Assets</b>	<b>Balances July 1, 2003*</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balances June 30, 2004</b>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 1,137,698	60,242	(13,580)	\$ 1,184,360
Highway System Infrastructure**	11,730,655	785,830	(3,660)	12,512,825
Construction in Progress	1,163,368	401,254	(532,660)	1,031,962
Art Collections, Library Reserves, and Museum and Historical Collections	107,972	1,232	(4,488)	104,716
<b>Total capital assets, not being depreciated</b>	<b>14,139,693</b>			<b>14,833,863</b>
<b>Capital assets, being depreciated:</b>				
Buildings	6,056,449	623,705	(16,393)	6,663,761
Accumulated depreciation	(2,019,649)	(178,589)	3,982	(2,194,256)
<b>Net buildings</b>	<b>4,036,800</b>			<b>4,469,505</b>
Furnishings, equipment, and collections	2,992,788	210,947	(80,579)	3,123,156
Accumulated depreciation	(1,701,701)	(162,397)	45,240	(1,818,858)
<b>Net furnishings, equipment and collections</b>	<b>1,291,087</b>			<b>1,304,298</b>
Other improvements	721,111	83,723	(40,579)	764,255
Accumulated depreciation	(264,355)	(44,519)	25,142	(283,732)
<b>Net other improvements</b>	<b>456,756</b>			<b>480,523</b>
Infrastructure (other)**	270,897	44,837	-	315,734
Accumulated depreciation	(92,363)	(18,022)	-	(110,385)
<b>Net infrastructure (other)</b>	<b>178,534</b>			<b>205,349</b>
<b>Total capital assets, being depreciated, net</b>	<b>5,963,177</b>			<b>6,459,675</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 20,102,870</b>			<b>\$ 21,293,538</b>

\*Beginning balances have been restated to reflect fund type reclassifications.

\*\*The state first reported infrastructure under the new requirements of the Governmental Accounting Standards Board Statement Number 34 in Fiscal Year 2002. The state accounts for the State Highway System and Emergency Airfields using the modified approach and reports them as non-depreciable Highway System Infrastructure. The state's short rail line is depreciated and is reported as depreciable Infrastructure (other). Under the modified approach, rather than recording depreciation, asset condition is reported. The rating scales for pavements, bridges, and airfields are further explained in Required Supplementary Information.

## B. Business-type Capital Assets

The following is a summary of business-type capital asset activity for the year ended June 30, 2004, (expressed in thousands):

<b>Capital Assets</b>	<b>Balances July 1, 2003*</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balances June 30, 2004</b>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 86,061	14,671	(106)	\$ 100,626
Construction in Progress	263,547	44,303	(220,848)	87,002
Art Collections	35	2	-	37
Total capital assets, not being depreciated	349,643			187,665
<b>Capital assets, being depreciated:</b>				
Buildings	1,290,689	248,748	(6,111)	1,533,326
Accumulated depreciation	(394,424)	(41,336)	1,753	(434,007)
Net buildings	896,265			1,099,319
Furnishings, equipment, and collections	288,475	62,745	(24,618)	326,602
Accumulated depreciation	(198,685)	(29,613)	20,311	(207,987)
Net furnishings, equipment, and collections	89,790			118,615
Other Improvements	33,573	2,733	(739)	35,567
Accumulated depreciation	(12,125)	(687)	124	(12,688)
Net other improvements	21,448			22,879
Infrastructure (other)	28,572	5,377	-	33,949
Accumulated depreciation	(8,068)	(2,325)	-	(10,393)
Net infrastructure (other)	20,504			23,556
Total capital assets, being depreciated, net	1,028,007			1,264,369
<b>Business-type activities capital assets, net</b>	<b>\$ 1,377,650</b>			<b>\$ 1,452,034</b>

\*Beginning balances have been restated to reflect fund type reclassifications and prior period error correction.



## C. Depreciation

Depreciation expense was charged to functions of the primary government as follows (expressed in thousands):

	Amount
Governmental Activities:	
General Government	\$ 38,189
Education - Elementary and Secondary (K-12)	2,400
Education - Higher Education	221,492
Human Services	23,146
Adult Corrections	23,176
Natural Resources and Recreation	22,452
Transportation	72,672
Total Depreciation Expense - Governmental Activities	\$ 403,527
Business-Type Activities:	
Workers' Compensation	\$ 6,261
Unemployment Compensation	-
Higher Education Student Services	51,116
Health Insurance Programs	216
Other	16,368
Total Depreciation Expense - Business-Type Activities	\$ 73,961

\*Includes \$53.4 million internal service fund depreciation that was allocated to functions as a part of the net internal service fund activity.

## D. Construction in Progress

Major construction commitments of the state at June 30, 2004, are as follows (expressed in thousands):

### D- Construction in Progress

Agency/Project Commitments	Construction In Progress June 30, 2004	Remaining Project Commitments
Office of the Secretary of State:		
Eastern Washington Regional Archives Building	\$ 13,862	\$ 1,382
Department of General Administration:		
Legislative and other buildings rehab., new office buildings, and other projects	157,566	347,670
Washington State Patrol:		
Spokane and Vancouver crime laboratories, and other projects	6,365	18,255
Military Department:		
Readiness centers and other projects	12,668	5,296
Department of Social and Health Services:		
State hospital and juvenile rehabilitation renovations, and other projects	101,940	37,219
Department of Veterans Affairs:		
240 Bed Skilled Nursing Center and other projects	28,796	15,479
Department of Corrections:		
Correctional centers construction, improvements, and other projects	206,137	247,386
Department of Transportation:		
State Highway System, maintenance facilities, and ferry vessels and terminals	159,514	802,312
Department of Fish and Wildlife:		
Hatchery renovations, site improvements, and other projects	19,444	11,948
Higher Education Facilities:		
University of Washington	103,910	194,788
Washington State University	30,346	231,085
Eastern Washington University	12,851	40,869
Central Washington University	50,501	5,259
The Evergreen State College	46,261	2,462
Western Washington University	21,782	11,895
Community and Technical Colleges	115,129	243,831
Other Agencies Miscellaneous Projects	31,892	34,718
<b>Total Construction in Progress</b>	<b>\$ 1,118,964</b>	<b>\$ 2,251,854</b>

## Note 7 – Long-Term Liabilities

### A. Bonds Payable

Bonds payable at June 30, 2004, are reported by the state of Washington within Governmental Activities and Business-Type Activities, as applicable.

The State Constitution and enabling statutes authorize the incurrence of state general obligation debt, to which the state's full faith, credit, and taxing power are pledged, either by the State Legislature or by a body designated by statute (presently the State Finance Committee). Legislative authorization arises from an affirmative vote of 60 percent of both legislative houses without voter consent, or from an affirmative vote of more than 50 percent of both legislative houses and a majority of the voters voting thereon. The State Finance Committee debt authorization does not require voter approval; however, it is limited to providing for: (1) temporary deficiencies in the state treasury (must be discharged within 12 months of the date of incurrence); (2) appropriations already made by the legislature; or (3) refunding of outstanding obligations of the state.

### Legal Debt Limitation

The State Constitution and current statutes generally limit debt authorized in the preceding procedures. The limitations prohibit the issuance of new debt if it would cause the maximum annual debt service, on all thereafter-outstanding general obligation debt, to exceed a specified percentage of the arithmetic mean of general state revenues for the preceding three fiscal years. These limitations are on the incurrence of new debt, not on the amount of debt service that may be paid by the state in future years.

As certified by the State Treasurer, the maximum debt authorization subject to limitation for Fiscal Year 2004 was \$6.3 billion, under the then current constitutional and statutory limitation. This computation excludes specific bond issues and types, which are not secured by general state revenues. Based on the debt limitation calculation, the debt service requirements as of June 30, 2004, did not exceed the authorized debt service limitation.

<b>Computation of Legal Debt Limitation (expressed in millions)<sup>1</sup></b>	
Three year mean, general state revenues	\$ 9,130
Legal Debt Limitation:	
Debt service limitation (7 percent of above)	\$ 639
Less: Projected maximum annual debt service of outstanding bonds	594
Uncommitted Portion of Debt Service Limitation	\$ 45
 Remaining State general obligation debt capacity	 \$ 607
Plus: Debt outstanding subject to limitation	5,693
Maximum Debt Authorization Subject to Limitation	\$ 6,300

<sup>1</sup> Source: Office of the State Treasurer – Certification of the Debt Limitation of the State of Washington for Fiscal Year 2004.

### Authorized but unissued

The state had a total of \$6,103 million in bonds authorized but unissued as of June 30, 2004, for the purpose of public building and schools construction and renovation, higher education purposes, and highways construction and improvement.

### Interest rates

Interest rates on fixed rate general obligation bonds ranged from 1.1 to 7.0 percent. Variable rate demand obligations (VRDO) of \$174.4 million as of June 30, 2004, are remarketed on a weekly basis. Interest rates on revenue bonds range from 2.0 to 9.0 percent.

### DEBT SERVICE REQUIREMENTS TO MATURITY

**General obligation bonds** have been authorized and issued primarily to provide funds for acquisition and

construction of capital facilities for public and common schools, higher education, public and mental health, corrections, conservation, and construction and improvements of highways, roads, and bridges. The state has also issued bonds for assistance to municipalities for construction of water and sewage treatment facilities and corrections facilities. In addition, bonds are authorized and issued to provide for the refunding of general obligation bonds outstanding. Outstanding general obligations bonds are presented in the Washington State Treasurer's Annual Report for 2004. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington, 98504-0200, phone number (360) 902-9000 or TTY (360) 902-8963.

Total debt service requirements to maturity for general obligation bonds, as of June 30, 2004, are as follows (expressed in thousands):

General Obligation Bonds	Governmental Activities		Business-Type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
<b>By Fiscal Year:</b>						
2005	\$ 422,663	\$ 444,850	\$ 16,960	\$ 6,407	\$ 439,623	\$ 451,257
2006	421,169	426,663	17,955	5,451	439,124	432,114
2007	434,298	410,610	19,150	4,436	453,448	415,046
2008	441,280	387,471	20,655	3,333	461,935	390,804
2009	454,306	367,958	11,335	4,899	465,641	372,857
2010-2014	2,119,365	1,558,265	35,843	16,374	2,155,208	1,574,639
2015-2019	2,294,750	1,159,779	29,037	44,916	2,323,787	1,204,695
2020-2024	1,724,909	641,277	4,425	11,835	1,729,334	653,112
2025-2029	846,965	291,033	-	-	846,965	291,033
2030-2034	13,676	43,929	-	-	13,676	43,929
<b>Total Debt Service Requirements</b>	<b>\$ 9,173,381</b>	<b>\$ 5,731,835</b>	<b>\$ 155,360</b>	<b>\$ 97,651</b>	<b>\$ 9,328,741</b>	<b>\$ 5,829,486</b>

**Revenue Bonds** are authorized under current state statutes, which provide for the issuance of bonds that are not supported, or not intended to be supported, by the full faith and credit of the state. These bonds pledge income derived from acquired or constructed assets for retirement of the debt and payment of the related interest.

secured by the TSA's right to receive 29.2 percent of the state's tobacco settlement revenue stream. These bonds are recorded as a governmental activity. The state's Colleges and Universities issue revenue bonds for the purpose of housing, dining, parking, and student facilities construction. These bonds are recorded as a business-type activity.

The Tobacco Settlement Authority (TSA), a blended component unit of the state, issued revenue bonds

Total debt service requirements for revenue bonds to maturity as of June 30, 2004, are as follows (expressed in thousands):

Revenue Bonds	Governmental Activities		Business-Type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
<b>By Fiscal Year:</b>						
2005	\$ 550	\$ 32,814	\$ 11,648	\$ 26,408	\$ 12,198	\$ 59,222
2006	110	32,796	12,325	26,159	12,435	58,955
2007	-	32,791	13,946	25,606	13,946	58,397
2008	10,675	32,791	14,582	24,961	25,257	57,752
2009	10,060	32,258	15,354	24,272	25,414	56,530
2010-2014	62,895	151,971	89,643	109,230	152,538	261,201
2015-2019	91,250	127,568	104,866	84,778	196,116	212,346
2020-2024	105,145	97,223	122,302	58,315	227,447	155,538
2025-2029	141,845	58,600	84,851	31,585	226,696	90,185
2030-2034	88,125	10,350	50,662	7,396	138,787	17,746
<b>Total Debt Service Requirements</b>	<b>\$ 510,655</b>	<b>\$ 609,162</b>	<b>\$ 520,179</b>	<b>\$ 418,710</b>	<b>\$ 1,030,834</b>	<b>\$ 1,027,872</b>

#### DEBT REFUNDINGS

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds. When the state refunds outstanding bonds, the net proceeds of each refunding issue are used to purchase U.S. government securities that are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability has been removed from the government-wide statement of net assets.

#### CURRENT YEAR DEFEASANCES

##### Governmental Activities:

On March 9, 2004, the state issued \$119 million of Various Purpose General Obligation Refunding Bonds (Series R-2004C) with an average interest rate of 4.47 percent to refund \$118.2 million of Various Purpose General Obligation Bonds from several different series with an average interest rate of 5.48 percent. The refunding resulted in an \$11.9 million gross debt service savings over the next 17 years and an economic gain of \$10.4 million.

On March 9, 2004, the state issued \$156.5 million in Motor Vehicle Fuel Tax General Obligation Refunding Bonds (Series R-2004D) with an average interest rate of 4.49 percent to refund \$151.3 million of Motor Vehicle Fuel Tax General Obligation bonds from several series with an average interest rate of 5.65 percent. The refunding resulted in a \$15.8 million gross debt service savings over the next 18 years and an economic gain of \$12.1 million.

On October 23, 2003, the state issued \$124.1 million of Various Purpose General Obligation Refunding Bonds (Series R-2004A) with an average interest rate of 4.78 percent to refund \$119.7 million of Various Purpose General Obligation Bonds from several series with an average interest rate of 5.80 percent. The refunding

resulted in an \$11.3 million gross debt service savings over the next 16 years and an economic gain of \$8.3 million.

On October 23, 2003, the state issued \$57 million of Motor Vehicle Fuel Tax General Obligation Refunding Bonds (Series RE-2004B) with an average interest rate of 4.81 percent to refund the remaining \$55.3 million of Motor Vehicle Fuel Tax General Obligation Bonds from several series with an average interest rate of 5.94 percent. The refunding resulted in a \$6.4 million gross debt service savings over the next 16 years and an economic gain of \$4.2 million.

##### Business-Type Activities:

On April 6, 2004, University of Washington issued \$4.38 million in Housing and Dining System Revenue and Refunding Bonds (Series 2004), with an average interest rate of 2.88 percent, to refund \$4.16 million in outstanding Housing and Dining System Revenue Bonds with an average interest rate of 2.91 percent. The refunding resulted in \$456,984 gross debt service savings over the next nine years and an economic gain of \$387,691.

#### PRIOR YEAR DEFEASANCES

In prior years, the state defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the prior bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the state's financial statements.

##### General Obligation Bond Debt:

On June 30, 2004, \$530.8 million of general obligation bonded debt outstanding is considered defeased.

##### Revenue Bond Debt:

On June 30, 2004, \$21.1 million of proprietary revenue bonded debt outstanding is considered defeased.

## B. Certificates of Participation

Current state law authorizes the state to enter into long-term financing contracts for the acquisition of real or personal property and for the issuance of certificates of participation in the contracts. These certificates of participation do not fall under the general obligation debt

limitations and are generally payable only from annual appropriations by the Legislature. Other specific provisions could also affect the state's obligation under certain agreements. The certificates of participation are recorded for financial reporting purposes if the possibility of the state not meeting the terms of the agreements is considered remote.

Total debt service requirements for certificates of participation to maturity as of June 30, 2004, are as follows (expressed in thousands):

Certificates of Participation	Governmental Activities		Business-Type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
<b>By Fiscal Year:</b>						
2005	\$ 27,707	\$ 14,677	\$ 31,311	\$ 16,587	\$ 59,018	\$ 31,264
2006	19,498	11,205	15,961	10,318	35,459	21,523
2007	18,041	10,421	15,220	9,663	33,261	20,084
2008	16,527	9,680	14,356	9,026	30,883	18,706
2009	19,621	8,976	17,637	8,406	37,258	17,382
2010-2014	100,400	33,866	83,526	28,175	183,926	62,041
2015-2019	59,563	9,193	56,482	8,722	116,045	17,915
2020-2024	12,704	1,210	12,056	1,148	24,760	2,358
2025-2029	-	-	-	-	-	-
<b>Total Debt Service Requirements</b>	<b>\$ 274,061</b>	<b>\$ 99,228</b>	<b>\$ 246,549</b>	<b>\$ 92,045</b>	<b>\$ 520,610</b>	<b>\$ 191,273</b>

### C. Claims and Judgments

Claims and judgments are materially related to three activities: workers' compensation, risk management, and health insurance. Workers' compensation and health insurance are business-type activities, and risk management is a governmental activity. A description of the risks to which the state is exposed by these activities,

and the ways in which the state handles the risks, is presented in Note 1E.

#### Workers' Compensation

Changes in the balances of workers' compensation claims liabilities during Fiscal Years 2003 and 2004 were as follows (expressed in thousands):

	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
<b>Workers' Compensation Fund</b>				
FY 2003	\$ 14,883,099	2,489,547	(1,508,794)	\$ 15,863,852
FY 2004	\$ 15,863,852	2,267,506	(1,540,260)	\$ 16,591,098

At June 30, 2004, \$36.3 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of \$16.6 billion. These claims are discounted at assumed interest rates of 4.0 percent (time loss and medical) to 6.5 percent (pensions) and adjusted at 4.0 percent (accident, medical aid, and claim adjustment expense) for a provision of uncertainty to arrive at a settlement value that is net of third party recoveries.

The claims and claim adjustment liabilities of \$16.6 billion, as of June 30, 2004, include \$8.2 billion for supplemental pension cost of living adjustments

(COLAs) that by statute are not to be fully funded. These COLA payments are funded on a pay-as-you-go basis, and the Workers' Compensation actuaries have indicated that future premium payments will be sufficient to pay these claims as they come due. The remaining claims liabilities of \$8.4 billion are fully funded by long-term investments, net of obligations under securities lending agreements.

#### Risk Management

Changes in the balances of risk management claims liabilities during Fiscal Years 2003 and 2004 were as follows (expressed in thousands):

	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Tort Defense Payments	Balances End of Fiscal Year
<b>Risk Management Fund</b>					
FY 2003	\$ 402,470	153,250	(40,082)	(16,724)	\$ 498,914
FY 2004	\$ 498,914	59,882	(29,755)	(15,710)	\$ 513,331

Risk Management reports claims and judgment liabilities when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. It also includes an actuarial estimate of loss adjustment expenses for tort defense. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, it should be recognized that future loss emergence will likely deviate, perhaps materially, from the actuarial estimates. Claims liabilities are re-evaluated annually to take into

consideration recently settled claims, the frequency of claims, and other economic or social factors.

The state is a defendant in a significant number of lawsuits pertaining to property and casualty matters. As of June 30, 2004, outstanding and actuarially determined claims against the state and its public authorities were \$513.3 million for which the state has recorded a liability. The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined claims. At June 30, 2004, the Risk Management Fund held \$71.0 million in cash and

pooled investments designated for payment of these claims under the state's Self Insurance Liability Program.

#### Health Insurance

Changes in the balances of Health Insurance claim liabilities during Fiscal Years 2003 and 2004 were as follows (expressed in thousands):

<b>Health Insurance Fund</b>	<b>Balances Beginning of Fiscal Year</b>	<b>Incurred Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>Balances End of Fiscal Year</b>
FY 2003	\$ 46,926	332,047	(331,039)	\$ 47,934
FY 2004	\$ 47,934	431,539	(412,594)	\$ 66,879

The Health Insurance Fund establishes a liability when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. Because actual claims liabilities depend on various complex factors, the process used in computing claims liabilities does not always result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

At June 30, 2004, health insurance claims liabilities totaling \$66.9 million are fully funded with cash and investments, net of obligations under securities lending agreements.

#### **D. Leases**

The state leases land, office facilities, office and computer equipment, and other assets under a variety of agreements. Although lease terms vary, most leases are subject to appropriation from the state Legislature to continue the obligation. If the possibility of receiving no funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Leases that represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the financial records at the inception of the lease. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Certain operating leases are renewable for specified periods. In most cases, management expects that the leases will be renewed or replaced by other leases.

Leased land, buildings and equipment under capital leases as of June 30, 2004, include the following (expressed in thousands):

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
Land (non-depreciable)	\$ 1,918	\$ -
Buildings	39,355	6,271
Equipment	3,632	870
Less: Accumulated Depreciation	(8,315)	(1,143)
<b>Totals</b>	<b>\$ 36,590</b>	<b>\$ 5,998</b>



The following schedule presents future minimum payments for capital and operating leases as of June 30, 2004, (expressed in thousands):

	Capital Leases		Operating Leases	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
<b>Capital and Operating Leases</b>				
<b>By Fiscal Year:</b>				
2005	\$ 6,300	\$ 2,094	\$ 102,462	\$ 20,996
2006	6,865	2,617	88,430	20,225
2007	4,817	2,538	72,332	19,510
2008	2,801	2,248	59,415	17,382
2009	2,873	2,125	54,796	16,568
2010-2014	7,096	3,162	153,098	4,241
2015-2019	550	1,925	56,009	-
2020-2024	315	1,203	43,049	-
2025-2029	-	-	42,771	-
2030-2034	-	-	36,285	-
Total Future Minimum Payments	31,617	17,912	708,647	98,922
Less: Executory costs and interest costs	3,874	3,668	-	-
<b>Net Present Value of future minimum lease payments</b>	<b>\$ 27,743</b>	<b>\$ 14,244</b>	<b>\$ 708,647</b>	<b>\$ 98,922</b>

The total operating lease rental expense for Fiscal Year 2004 was \$291.5 million.

## E. Long-Term Liability Activity

Long-term liability activity for the Fiscal Year 2004 (expressed in thousands) was as follows:

	Beginning Balance *			Ending Balance	Amounts Due Within
<b>Governmental Activities:</b>	July 1, 2003	Additions	Reductions	June 30, 2004	One Year
Long-term Debt:					
GO Bonds Payable -					
General obligation (GO) bonds	\$ 7,912,225	\$ 1,424,350	\$ 814,200	\$ 8,522,375	\$ 406,645
GO - zero coupon bonds (principal)	464,342	199,984	13,320	651,006	16,018
Subtotal - GO Bonds payable	8,376,567	1,624,334	827,520	9,173,381	422,663
Accreted Interest - GO - zero coupon bonds	152,603	25,638	-	178,241	-
Revenue Bonds Payable	517,905	-	7,250	510,655	550
Less: Deferred amounts for issuance discounts	(2,356)	-	(204)	(2,152)	-
Less: Unamortized bond issuance costs	(13,747)	-	(977)	(12,770)	-
Total Bonds Payable	9,030,972	1,649,972	833,589	9,847,355	423,213
Other Liabilities -					
Certificates of participation	276,276	18,115	20,330	274,061	27,707
Claims and judgments	593,554	26,371	36,593	583,332	97,633
Installment contracts	-	221	-	221	111
Leases	31,610	44	3,911	27,743	6,300
Compensated absences	398,536	271,648	257,889	412,295	44,086
Unfunded pension obligations	49,900	5,600	-	55,500	-
Other	191,365	1,212,966	1,279,508	124,831	89,298
Total Other Liabilities	1,541,241	1,534,965	1,598,231	1,477,983	265,135
<b>Total</b>	<b>\$ 10,572,213</b>	<b>\$ 3,184,937</b>	<b>\$ 2,431,820</b>	<b>\$ 11,325,338</b>	<b>\$ 688,348</b>

\* Beginning balance as restated, refer to Note 2.

For Governmental Activities, payments on the certificates of participation are being repaid directly from various governmental funds. The compensated absences liability will be liquidated approximately 53 percent by the General Fund, 24 percent by the Higher Education Special Revenue Funds, and the balance by various other governmental funds. The claims and judgments liability will be liquidated primarily through the risk management fund, an internal service fund. Leases, installment contract obligations, and other liabilities will be repaid from various other governmental funds.

The revenue bonds were issued by the Tobacco Settlement Authority (TSA), which is a blended component unit of the state. The bonds are obligations of the TSA and are secured solely by the TSA's right to receive 29.2 percent of the state's tobacco settlement revenues, restricted investments of the TSA, and undistributed TSA bond proceeds. These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit or taxing power for payment of these bonds.

	Beginning Balance *			Ending Balance	Amounts Due Within
<b>Business-Type Activities</b>	July 1, 2003	Additions	Reductions	June 30, 2004	One Year
Long-term Debt:					
GO Bonds Payable					
General obligation (GO) bonds	\$ 143,139	\$ -	\$ 17,039	\$ 126,100	\$ 16,960
GO - zero coupon bonds (principal)	29,259	-	-	29,259	-
Subtotal - GO Bonds payable	172,398	-	17,039	155,359	16,960
Accreted Interest - GO - zero coupon bonds	17,843	2,901	-	20,744	-
Revenue Bonds Payable	454,642	81,127	15,590	520,179	11,648
Less: Deferred amounts on refunding	(3,603)	145	433	(3,891)	-
Less: Deferred amounts for issuance discounts	(1,705)	-	(67)	(1,638)	-
Less: Unamortized bond issuance costs	(850)	(950)	(59)	(1,742)	-
Total Bonds Payable	638,725	83,223	32,936	689,011	28,608
Other liabilities -					
Certificates of participation	247,594	28,979	30,023	246,550	31,311
Less: Deferred amounts for issuance discounts	(2,052)	3	(145)	(1,904)	-
Claims and judgments	15,915,336	1,496,547	750,549	16,661,334	1,638,249
Lottery prize annuities payable	529,154	42,721	73,841	498,034	70,491
Tuition benefits payable	350,000	121,895	9,601	462,294	-
Leases	5,882	9,390	1,027	14,245	2,094
Compensated absences	37,183	24,703	20,322	41,564	16,855
Other	37,128	51,229	54,240	34,117	31,742
Total Other Liabilities	17,120,225	1,775,467	939,458	17,956,234	1,790,742
<b>Total</b>	<b>\$ 17,758,950</b>	<b>\$ 1,858,690</b>	<b>\$ 972,394</b>	<b>\$ 18,645,245</b>	<b>\$ 1,819,350</b>

\* Beginning balance as restated, refer to Note 2.

## Note 8 - No Commitment Debt

The Washington State Housing Finance Commission, Washington Higher Education Facilities Authority, Washington Health Care Facilities Authority, and Washington Economic Development Finance Authority (financing authorities) were created by the state Legislature. For financial reporting purposes, they are discretely presented as component units. These financing authorities issue bonds for the purpose of making loans to qualified borrowers for capital acquisitions, construction, and related improvements.

These bonds do not constitute either a legal or moral obligation of the state or these financing authorities, nor does the state or these financing authorities pledge their faith and credit for the payment of such bonds. Debt service on the bonds is payable solely from payments made by the borrowers pursuant to loan agreements. Due to their no commitment nature, the bonds issued by these financing authorities are excluded from the state's financial statements.

The table below presents the latest available balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

No Commitment Debt	Principal Balance
Washington State Housing Finance Commission	\$ 2,197,004
Washington Higher Education Facilities Authority	385,871
Washington Health Care Facilities Authority	2,800,000
Washington Economic Development Finance Authority	306,337
<b>Total No Commitment Debt</b>	<b>\$ 5,689,212</b>

## Note 9 – Fund Balances Reserved for Other Specific Purposes

The nature and purposes of fund balances reserved for other specific purposes as of June 30, 2004, are listed below (expressed in thousands):

Fund Balances	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Totals
<b>Reserved for Other Specific Purposes:</b>					
Long-term student loans	\$ -	\$ 93,121	\$ -	\$ -	\$ 93,121
Investments with trustees	601	-	-	453	1,054
Long-term receivables	35,949	688	-	1,171,100	1,207,737
Long-term investments	-	73,917	-	22,323	96,240
Emergency reserve	-	-	-	43	43
Petty cash	657	4,767	-	828	6,252
<b>Total Reserved for Other Specific Purposes</b>	<b>\$ 37,207</b>	<b>\$ 172,493</b>	<b>\$ -</b>	<b>\$ 1,194,747</b>	<b>\$ 1,404,447</b>

## Note 10 - Deficit Net Assets

At June 30, 2004, there were two proprietary funds with deficit net assets.

The Workers' Compensation Fund, an enterprise fund, had deficit net assets of \$6.9 billion at June 30, 2004. The fund is used to account for the workers' compensation program, which provides time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries. The main

benefit plans of the workers' compensation program are funded based on rates that will keep these plans solvent in accordance with recognized actuarial principles. The supplemental pension cost-of-living adjustments (COLA) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

The following schedule details the changes in total net assets for the Workers' Compensation Fund during the fiscal year ended June 30, 2004 (expressed in thousands):

	Net Assets (Deficit)
<b>Workers' Compensation Fund</b>	
Balance, July 1, 2003	\$ (6,246,013)
Fiscal Year 2004 activity	(696,007)
<b>Balance, June 30, 2004</b>	<b>\$ (6,942,020)</b>

The Risk Management Fund, an internal service fund, had deficit net assets of \$445.0 million at June 30, 2004. The Risk Management Fund is used to account for the claims, torts, judgments generally arising from automobile and general government operations, and loss adjustment expenses for tort defense. These costs are supported by premium assessments to state agencies that are designed to cover current and future claim losses. Outstanding and incurred but not reported claims are actuarially determined and accrued, resulting in the deficit net assets.

The Self Insurance Liability Program, initiated in 1990, is intended to provide funds for the payment of all claims and loss adjustment expenses for tort defense.

The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined claims.

The following schedule details the changes in net assets for the Risk Management Fund during the fiscal year ended June 30, 2004 (expressed in thousands):

	Net Assets (Deficit)
<b>Risk Management Fund</b>	
Balance, July 1, 2003	\$ (484,313)
Fiscal Year 2004 activity	39,284
<b>Balance, June 30, 2004</b>	<b>\$ (445,029)</b>

## Note 11 - Retirement Plans

### A. General

The state of Washington, through the Department of Retirement Systems, the Board for Volunteer Fire Fighters, and the Administrator for the Courts, administers 12 defined benefit retirement plans, three combination defined benefit/defined contribution retirement plans, and one defined contribution retirement plan covering eligible employees of the state and local governments. Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan.

#### DEPARTMENT OF RETIREMENT SYSTEMS

As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers seven retirement systems comprising 11 defined benefit pension plans and three combination defined benefit/defined contribution plans as follows:

#### Public Employees' Retirement System (PERS)

- Plan 1 - defined benefit
- Plan 2 - defined benefit
- Plan 3 - defined benefit/defined contribution

#### Teachers' Retirement System (TRS)

- Plan 1 - defined benefit
- Plan 2 - defined benefit
- Plan 3 - defined benefit/defined contribution

#### School Employees' Retirement System (SERS)

- Plan 2 - defined benefit
- Plan 3 - defined benefit/defined contribution

#### Law Enforcement Officers' and Fire Fighters'

##### Retirement System (LEOFF)

- Plan 1 - defined benefit
- Plan 2 - defined benefit

#### Washington State Patrol Retirement System (WSPRS)

- Plan 1 - defined benefit
- Plan 2 - defined benefit

#### Judicial Retirement System (JRS)

Defined benefit plan

#### Judges' Retirement Fund (Judges)

Defined benefit plan

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

Administration of the PERS, TRS, SERS, and LEOFF systems and plans was funded by an employer rate of .22 percent of employee salaries. Administration of the WSPRS, JRS, and Judges plans is funded by means of legislative appropriations.

The Department of Retirement Systems prepares a stand-alone financial report. Copies of the report that include financial statements and required supplementary information may be obtained by writing to Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380.

#### BOARD FOR VOLUNTEER FIRE FIGHTERS

As established in chapter 41.24 RCW, the Washington Board for Volunteer Fire Fighters' administers the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF), a defined benefit plan. Administration of VFFRPF is funded through legislative appropriation.

#### ADMINISTRATOR FOR THE COURTS

As established in chapter 2.14 RCW, the Administrator for the Courts administers the Judicial Retirement Account (JRA), a defined contribution plan. Administration of JRA is funded through member fees.

#### TIAA/CREF

In addition to the retirement plans administered by the state of Washington, eligible higher education state employees may participate in the Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF) which is a privately administered defined contribution plan.

Plan descriptions, funding policies, and a table of employer contributions required and paid for defined benefit plans follow at Notes 11.B through D respectively. For information related to defined contribution plans, refer to Note 11.I. Details on plan net assets and changes in plan net assets of pension plans administered by the state are presented at Note 11.J.

Membership of each state administered plan consisted of the following at September 30, 2003, the date of the latest actuarial valuation for all plans except for VFFRPF which had an actuarial valuation performed on December 31, 2003.

Number of Participating Members					
Defined Benefit Plans Administered by the State	Retirees and Beneficiaries Receiving Benefits	Terminated Members Entitled to but not yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total Members
PERS 1	54,372	3,142	18,355	1,385	77,254
PERS 2	10,904	16,089	72,343	44,919	144,255
PERS 3	86	770	9,771	7,777	18,404
TRS 1	33,855	1,649	10,898	277	46,679
TRS 2	957	2,493	6,936	701	11,087
TRS 3	385	2,418	18,646	28,617	50,066
SERS 2	736	1,902	14,613	6,891	24,142
SERS 3	306	1,648	11,492	16,218	29,664
LEOFF 1	8,054	14	991	0	9,059
LEOFF 2	316	439	10,557	4,003	15,315
WSPRS 1	735	93	825	220	1,873
WSPRS 2	-	-	-	34	34
JRS	129	3	21	-	153
Judges	17	-	-	-	17
JRA	4	11	189	-	204
VFFRPF	2,993	4,511	4,874	7,169	19,547
<b>Total</b>	<b>113,849</b>	<b>35,182</b>	<b>180,511</b>	<b>118,211</b>	<b>447,753</b>

Following is a summary of the number of government employers participating in state administered retirement plans as of June 30, 2004.

Number of Participating Employers				
Plan	State Agencies	School Districts	Counties/Municipalities	Other Political Subdivisions
PERS 1	155	246	207	251
PERS 2	170	-	269	448
PERS 3	147	-	170	214
TRS 1	83	284	-	-
TRS 2	40	269	-	-
TRS 3	42	292	-	-
SERS 2	9	288	-	-
SERS 3	10	288	-	-
LEOFF 1	-	-	99	22
LEOFF 2	9	-	221	137
WSPRS 1	1	-	-	-
WSPRS 2	1	-	-	-
JRS	3	-	-	-
Judges	-	-	-	-
JRA	3	-	-	-
VFFRPF	-	-	-	650

Employers can participate in multiple systems and/or plans.

## B. Plan Description

### Public Employees' Retirement System (PERS)

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees, have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3.

PERS is comprised of three separate plans for reporting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for reporting purposes.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2004, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PERS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment. PERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in PERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from PERS-covered employment.

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs such as Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF); judges of district and municipal courts; and employees of local governments. TIAA/CREF is not administered by DRS. Approximately 51 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

PERS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during any 24 eligible consecutive compensation months), capped at 60 percent.

PERS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3



provides the same cost-of-living allowance as Plan 2. Refer to section I of this note for a description of the defined contribution component of PERS Plan 3.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of membership service is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

The laws of 2004 established a Plan 1 minimum monthly benefit of \$1,000, before optional payment reductions, for those members with at least 25 years of service and who have been retired at least 20 years.

There were no other material changes in PERS benefit provisions for the fiscal year ended June 30, 2004.

PERS pension benefit provisions have been established by chapter 41.40 RCW.

### **Teachers' Retirement System (TRS)**

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. TRS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3.

TRS is comprised of three separate plans for reporting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3

members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for reporting purposes.

TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2004, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in TRS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment. TRS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in TRS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from TRS-covered employment.

TRS was legislatively established in 1938. Eligibility for membership requires service as a certificated employee in grades K-12 in the public schools. TRS is comprised principally of non-state employees. TRS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

TRS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during the highest of any consecutive two compensation contract years), capped at 60 percent.

TRS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-

living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in TRS Plan 2 by July 1, 1996, and transferred to Plan 3. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section I of this note for a description of the defined contribution component of TRS Plan 3.

TRS Plan 1 provides death and duty disability benefits. TRS Plan 1 members receive the following additional lump sum death benefits: retired members-\$400 (if at least 10 years of membership service), active members-\$600. Members on temporary disability receive a temporary life annuity of \$180 per month payable up to two years. After five years of service, members on a disability retirement receive an allowance based on their salary and service to date of disability. Members enrolled in TRS prior to April 25, 1973, may elect a benefit based on the formula in effect at that time.

TRS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3, the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

The laws of 2004 established a Plan 1 minimum monthly benefit of \$1,000, before optional payment reductions, for those members with at least 25 years of service and who have been retired at least 20 years.

There were no other material changes in TRS benefit provisions for the fiscal year ended June 30, 2004.

TRS pension benefit provisions have been established by chapters 41.32 and 41.34 RCW.

### **School Employees' Retirement System (SERS)**

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership

purposes: Plan 2 is a defined benefit plan and Plan 3 is a combination defined benefit/defined contribution plan. As of September 1, 2000, the membership of classified school employees in PERS Plan 2 was transferred to SERS Plan 2. Those who joined on or after October 1, 1977, and by August 31, 2000, are SERS Plan 2 members unless they exercised an option to transfer their membership to Plan 3. SERS participants joining the system on or after September 1, 2000, and those who exercised their transfer option, are members of SERS Plan 3.

SERS is comprised of two separate plans for reporting purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for reporting purposes.

SERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the SERS Plan 2 defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2004, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in SERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from SERS-covered employment. SERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in SERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from SERS-covered employment.

The Legislature established SERS in 2000. Membership in the system includes all classified employees of school districts or educational service districts. SERS is comprised principally of non-state employees. SERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

SERS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation (AFC) per year of service. (AFC is based

on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to September 1, 2000. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section I of this note for a description of the defined contribution component of SERS Plan 3.

SERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

There were no material changes in SERS benefit provisions for the fiscal year ended June 30, 2004.

SERS pension benefit provisions have been established by chapter 41.35 RCW.

### **Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)**

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977, are Plan 2 members.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF

Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2004, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in LEOFF Plan 1 and 2 can elect to withdraw total employee contributions and interest earnings thereon upon separation from LEOFF-covered employment.

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being a major exception. LEOFF retirement benefit provisions are established in state statute and may be amended only by the state Legislature. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of FAS
20+	2.0%
10-19	1.5%
5-9	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of FAS. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

LEOFF Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service (FAS is based on the highest consecutive 60 months). Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 1 provides death and disability benefits. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS. In addition, a duty death benefit of \$150,000 is provided to Plan 1 and Plan 2 members.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 2 provides non-duty disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, and to reflect the choice of a survivor option.

Legislation passed in the 2004 session allows members of LEOFF Plan 2 who leave service because of a line of duty disability to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of FAS. If the 2 percent per year of service disability benefit, actuarially reduced for the difference between age 53 and age at retirement, results in a greater benefit than the minimum 10 percent, the member receives the greater benefit. The first 10 percent of the line-duty disability benefit is not subject to federal income tax. The line-duty disability benefit applies to all LEOFF Plan 2 members disabled in the line of duty on or after January 1, 2001.

Legislation passed in the 2004 session provides LEOFF Plan 2 survivors with a survivor allowance not subject to an actuarial reduction if the member was killed in the course of employment after having accumulated 10 years of service.

There were no other material changes in LEOFF benefit provisions for the fiscal year ended June 30, 2004.

LEOFF pension benefit provisions have been established by chapter 41.26 RCW.

## **Washington State Patrol Retirement System (WSPRS)**

WSPRS is a single-employer defined benefit retirement system. WSPRS participants who joined the system by December 31, 2002, are Plan 1 members. Those who joined on or after January 1, 2003, are Plan 2 members. For financial reporting and investment purposes, however, both plans are accounted for in the same pension fund.

WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to WSPRS accrue interest at a rate specified by DRS. During Fiscal Year 2004, the DRS-established rate on employee contributions was 5.5 percent compounded annually and posted monthly. Employees in WSPRS can elect to withdraw total employee contributions and interest earnings thereon upon separation from WSPRS-covered employment.

WSPRS was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate. WSPRS benefits are established in state statute and may be amended only by the state Legislature.

WSPRS retirement benefits are vested after an employee completes five years of eligible service. Members are eligible for retirement at the age of 55 with five years of service, or after 25 years of service. The annual pension is 2 percent of the average final salary (AFS), capped at 75 percent, per year of service. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

WSPRS benefit provisions include death benefits; however, the system provides no disability benefits. Disability benefits may be available from the Washington State Patrol. If disability benefits are received, the member may be eligible to acquire service credit for the period of disability. In addition, a duty death benefit of \$150,000 is provided to all WSPRS members.

For WSPRS Plan 1 members, AFS is based on the average of the two highest-paid service credit years and excludes voluntary overtime. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the AFS, plus 5 percent of the AFS for each surviving child, with a limitation on the combined allowances of 60 percent of the AFS; or (2) If no eligible spouse, 30 percent of AFS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of AFS.

For WSPRS Plan 2 members, AFS is based on the average of the five consecutive highest-paid service

credit years and excludes both voluntary overtime and cash-outs of annual and holiday leave. At retirement, Plan 2 members also have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits. Death benefits for active-duty Plan 2 members consist of the following: (1) If the member is single or has less than 10 years of service, the return of the member's accumulated contributions; or (2) If the member is married, has an eligible child, or has completed 10 years of service, a reduced benefit allowance reflecting a joint and 100 percent survivor option *or* 150 percent of the member's accumulated contributions, at the survivor's option.

Legislation passed in the 2004 session provides that beneficiaries of a WSPRS Plan 2 member with 10 years of service who is killed in the course of employment would receive retirement benefits without actuarial reduction for prior to normal retirement. The legislation applies to any member killed in the course of employment, as determined by the director of the Department of Labor and Industries, on or after June 10, 2004.

There were no other material changes in WSPRS benefit provisions for the fiscal year ended June 30, 2004.

WSPRS pension benefit provisions have been established by chapter 43.43 RCW.

### **Judicial Retirement System (JRS)**

JRS is an agent multiple-employer retirement system comprised of a single defined benefit plan. JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings, employer contributions, employee contributions, and a special funding situation in which the state pays the remaining contributions. JRS employees accrue no interest on contributions and may not elect to withdraw their contributions upon termination.

JRS was established by the Legislature in 1971. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971. The system was closed to new entrants on July 1, 1988, with new judges joining PERS Plan 2. JRS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

JRS members are eligible for retirement at the age of 60 with 15 years of service, or at the age of 60 after 12 years of service (if the member left office involuntarily) with at least 15 years after beginning judicial service.

The benefit per year of service calculated as a percent of average final compensation (AFC) is as follows:

<u>Term of Service</u>	<u>Percent of AFC</u>
15+	3.5%
10-14	3.0%

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires ten or more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit a member would have received if retired. If the member is retired, the surviving spouse receives the greater of 50 percent of the member's retirement benefit or 25 percent of the AFC. For members with ten or more years of service, a disability benefit of 50 percent of AFC is provided.

There were no material changes in JRS benefit provisions for the fiscal year ended June 30, 2004.

JRS pension benefit provisions have been established by chapter 2.10 RCW.

### **Judges' Retirement Fund (Judges)**

The Judges' Retirement Fund is an agent multiple-employer retirement system comprised of a single defined benefit plan. Retirement benefits are financed on a pay-as-you-go basis from a combination of employee contributions, employer contributions, and a special funding situation in which the state pays the remaining contributions. Employees do not earn interest on their contributions, nor can they elect to withdraw their contributions upon termination.

The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to RCW 2.12, to provide retirement benefits to judges of the Supreme Court, Court of Appeals, or Superior Courts of the state of Washington. Subsequent legislation required that all judges first appointed or elected to office on or after August 9, 1971, enter the Judicial Retirement System. Judges' retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Judges' members are eligible for retirement at the age of 70 with ten years of service, or at any age with 18 years of service. Members are eligible to receive a partial retirement allowance after 12 years of credited service as a judge. With the exception of a partial retirement allowance, the member receives a benefit equal to one-half of the monthly salary being received as a judge at the time of retirement, or at the end of the term immediately prior to retirement if retirement occurs after the expiration of the member's term in office. A partial retirement allowance is based on the proportion of the member's 12 or more years of service in relation to 18 years of service.

There were no material changes in Judges' benefit provisions for the fiscal year ended June 30, 2004.

Judges' pension benefit provisions have been established by chapter 2.12 RCW.

### **The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)**

VFFRPF is a cost-sharing multiple-employer retirement system that provides death and active duty disability benefits to all members, and optional defined benefit pension plan payments.

VFFRPF retirement benefits are financed from a combination of investment earnings, member contributions, municipality contributions, and a special funding situation where the state pays the remaining contributions. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

The Volunteer Fire Fighters' Relief Act was created by the Legislature in 1935 and the pension portion of the act was added in 1945. Membership in the system requires volunteer firefighter service with a fire department of an electing municipality of Washington State, emergency work as an emergency medical technician with an emergency medical service district, or work as a commissioned reserve law enforcement officer.

Retirement benefits are established in state statute and may be amended only by the state Legislature. Since retirement benefits cover volunteer service, benefits are paid based on years of service not salary. Members are vested after ten years of service.

After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of \$50 plus \$10 per year of service. The maximum monthly benefit is \$300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of \$152,000. Funeral and burial expenses are also paid in a lump sum of \$2,000 for members on active duty. Members receiving disability benefits at the time of death shall be paid \$500. Members on active duty shall receive disability payments of \$2,550 per month for up to six months; thereafter, payments are reduced. Disabled members receive \$1,275 per month, their spouse \$255, and dependent children \$110. Benefit provisions for VFFRPF are established under the authority of chapter 41.24 RCW.

Effective July 1, 2001, the disability income benefits and the maximum survivor benefits under the Relief Plan are increased for increases in the CPI.

There were no material changes in VFFRPF benefit provisions for the fiscal year ended June 30, 2004.

### **C. Funding Policies**

Contributions towards the amortization of the PERS 1 and TRS 1 unfunded actuarial accrued liability are suspended for the 2003-2005 biennium.

The estimated value of gain-sharing benefits is included in the liabilities for accounting disclosure purposes. However, the actual contribution rates at the close of the fiscal year ending 2004 were based on the 2001 actuarial valuations, which did not include the value of gain-sharing benefits.

### **Public Employees' Retirement System (PERS)**

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. There are no employer contributions to PERS Plan 3 defined contribution. Employees who participate in the defined contribution portion of PERS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of PERS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2004 were as follows:

PERS Actual Contribution Rates

	PLAN 1	PLAN 2	PLAN 3
Employer Rates:			
State agencies*	1.40%	1.40%	1.40%**
Local governmental units*	1.40%	1.40%	1.40%**
State gov't elected officials*	1.99%	1.40%	1.40%**
Employee Rates:			
State agencies	6.00%	1.18%	***
Local governmental units	6.00%	1.18%	***
State gov't elected officials	7.50%	1.18%	***

\*The employer rates include an administrative expense rate of 0.22 percent.

\*\*Plan 3 defined benefit portion only.

\*\*\*Variable from 5% to 15% based on rate selected by the member.

### Teachers' Retirement System (TRS)

Each biennium the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state elected officials. . The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. There are no employer contributions to TRS Plan 3 defined contribution. Employees who participate in the defined contribution portion of TRS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of TRS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2004 were as follows:

TRS Actual Contribution Rates

	PLAN 1	PLAN 2	PLAN 3
Employer Rates *	1.39%	1.39%	1.39%**
Employee Rates:			
State agencies	6.00%	0.87%	***
Local governmental units	6.00%	0.87%	***
State gov't elected officials	7.50%	0.87%	***

\*The employer rates include an administrative expense rate of 0.22 percent.

\*\* Plan 3 defined benefit portion only.

\*\*\* Variable from 5% to 15% based on rate selected by the member.

### School Employees' Retirement System (SERS)

Each biennium the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. There are no employer contributions to SERS Plan 3 defined contribution. Employees who participate in the defined contribution portion of SERS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of SERS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates.

The methods used to determine the contribution requirements are established under state statute in chapters 41.35 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2004 were as follows:

SERS Actual Contribution Rates

	PLAN 2	PLAN 3
Employer Rates:		
State agencies*	1.07%	1.07% **
Local governmental units*	1.07%	1.07% **
Employee Rates:		
State Agencies	0.85%	***
Local Governmental Units	0.85%	***

\*The employer rates include an administrative expense rate of 0.22 percent.

\*\*Plan 3 defined benefit portion only.

\*\*\*Variable from 5% to 15% based on rate selected by the member.

### **Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)**

Beginning July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 1 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with chapter 41.45 RCW. All employers are required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2004 were as follows:

LEOFF Actual Contribution Rates		
	PLAN 1	PLAN 2
Employer Rates:		
Ports and Universities*	NA	5.29%
Local governmental units* (cities, counties, fire districts, etc)	0.22%	3.26%
Employee Rates:		
Ports and Universities	NA	5.07%
Local governmental units (cities, counties, fire districts, etc)	NA	5.07%
State of Washington	NA	2.03%

\*The employer rates include an administrative expense rate of 0.22 percent.

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the State Constitution and this funding requirement could be returned to the employers by a change of statute. For Fiscal Year 2004, the state contributed \$20.2 million to LEOFF Plan 2.

### **Washington State Patrol Retirement System (WSPRS)**

State statute (chapter 43.43 RCW) obligates employees to contribute at a fixed rate of 2 percent for Fiscal Year 2004. The Pension Funding Council in accordance with chapter 41.45 RCW adopts contribution rates for the employee and the state. The employee and the state are required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2004 were as follows:

WSPRS Actual Contribution Rates		
	PLAN 1	PLAN 2
Employer rate	NA	NA
Employee rate	2.00%	2.00%

### **Judicial Retirement System (JRS)**

Contributions made are based on rates set in chapter 2.10 RCW. By statute, employees are required to contribute 7.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the JRS on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2004, the state contributed \$6 million.

### **Judges' Retirement Fund (Judges)**

Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2004, the state contributed \$0.5 million.

### **The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)**

The retirement provisions of VFFRPF is funded through member contributions of \$30 per year, employer contributions of \$30 per year, and 40 percent of the Fire Insurance Premium Tax, as per chapter 41.24 RCW. VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination. The death and disability provisions of VFFRPF are funded by an employer contribution rate of \$10 per member.

Administrative expenses are funded through fire insurance premium taxes and are maintained in a separate fund. Amounts not needed for administrative expenses are transferred to VFFRPF.



#### D. Employer Contributions Required and Paid

The following table presents the state of Washington's required contributions in millions of dollars to cost-sharing plans in accordance with the funding policy. All contributions required by the funding method were paid.

	2004	2003	2002
PERS Plan 1	\$11.5	\$28.8	\$35.3
PERS Plan 2/3	34.3	18.5	26.2
TRS Plan 1	0.3	0.6	1.7
TRS Plan 2/3	0.2	0.1	0.4
SERS Plan 2/3	0.0	0.0	0.0
LEOFF Plan 1	0.0	0.0	0.0
LEOFF Plan 2	20.5	16.6	15.8
VFFRPF	4.4	3.3	3.3

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

#### E. Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation (NPO), in millions, to the plans listed for the current year were as follows:

	WSPRS	JRS	Judges
Annual Required Contribution	\$2.6	\$18.5	\$0.2
Interest on NPO	(2.3)	4.0	(0.2)
Adjustment to annual required contribution	3.5	(10.7)	0.6
Annual Pension Cost	3.8	11.8	0.6
Less Contributions Made	0.0	6.2	0.5
Increase (decrease) in NPO	3.8	5.6	0.1
NPO at beginning of year	(28.4)	49.9	(2.7)
NPO at end of year	(24.6)	55.5	(2.6)

The valuation date for the plans is September 30, 2003. The actuarial cost method for WSPRS is aggregate and for JRS and Judges is entry age normal. The unfunded or surplus amount is being amortized as a level dollar amount to December 31, 2008, for Judges and JRS. All other methods and assumptions are the same as used in funding and disclosed in "Notes to the Required Supplementary Information – Defined Benefit Pension Plans."

#### F. Three Year Trend Information

The following table presents three-year trend information in millions for the plans listed:

	2004	2003	2002
<b>WSPRS</b>			
Annual Pension Cost	\$3.8	\$1.2	\$1.3
% of APC contributed	0.0	0.0	0.0
NPO	\$(24.6)	\$(28.4)	\$(29.6)
<b>JRS</b>			
Annual Pension Cost	\$11.8	\$11.4	\$10.7
% of APC contributed	52.5	54.6	57.9
NPO	\$55.5	\$49.9	\$44.7
<b>Judges</b>			
Annual Pension Cost	\$0.6	\$0.4	\$0.5
% of APC contributed	83.3	75.0	60.0
NPO	\$(2.6)	\$(2.7)	\$(2.8)

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

#### G. Changes in Actuarial Assumptions and Methods

A 30 percent market corridor was added to the asset valuation method for PERS, TRS, SERS, LEOFF and WSPRS. The corridor did not affect the results of the 9/30/03 actuarial valuations as the actuarial values of assets were within the 70 percent to 130 percent market value of assets corridor.

The methods used for the actuarial valuations were changed to include the value of gain-sharing benefits for PERS, TRS, and SERS. The revised methods were used for GASB purposes beginning with the 9/30/02 valuations, and for funding purposes beginning with the 9/30/03 valuations.

#### H. Changes in Benefit Provisions

As noted in Note 11B, the 2004 legislative session provided for the following changes in benefit provisions: A \$1,000 minimum monthly benefit is established in PERS Plan 1 and TRS Plan 1, before optional payment reductions, for those members with at least 25 years of service and who have been retired at least 20 years.

Members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of final average salary.

Survivors of a LEOFF Plan 2 member with 10 years of service who is killed in the course of employment will receive retirement benefits without actuarial reduction.

Beneficiaries of a WSPRS Plan 2 member with 10 years of service who is killed in the course of employment will receive retirement benefits without actuarial reduction.

Chapter 242, Laws of 2004 creates the Public Safety Employees Retirement System (PSERS) effective July 1, 2006. The current actuarial valuations have not been adjusted for this law.

## **I. Defined Contribution Plans**

### **Public Employees' Retirement System Plan 3 (PERS 3)**

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs such as Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF); judges of district and municipal courts; and employees of local governments. PERS participants who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants who joined the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Refer to section B of this note for PERS plan descriptions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.40, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For Fiscal Year 2004, employee contributions required and made were \$53.2 million, and plan refunds paid out were \$26.6 million.

### **Teachers' Retirement System Plan 3 (TRS 3)**

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include certificated employees in grades K-12 in the public schools. TRS participants who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3. Refer to Section B of this note for TRS plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.34, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

TRS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, TRS Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2004, employee contributions required and made were \$173.1 million and plan refunds paid out were \$25.9 million.

### **School Employees' Retirement System Plan 3 (SERS 3)**

The School Employees' Retirement System (SERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include classified employees of school districts and educational service districts who joined PERS Plan 2 on or after October 1, 1977, and by August 31, 2000, and were transferred to SERS Plan 2 on September 1, 2000. Members transferred from PERS Plan 2 to SERS Plan 2 may exercise an option to transfer their membership to SERS Plan 3. SERS participants joining the system on or after September 1, 2000, are also members of SERS Plan 3. Refer to Section B of this note for SERS plan descriptions.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.35, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of SERS Plan 3.

SERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS Plan 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2004, employee contributions required and made were \$43.8 million and plan refunds paid out were \$12.4 million.

### **Judicial Retirement Account (JRA)**

The Judicial Retirement Account Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state Office of the Administrator for the Courts, under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of the PERS for their services as a judge. Vesting is full and immediate. There are three participating employers in JRA.

Member contributions equal 2.5 percent of covered salary and the state, as employer, matches this amount. Contributions are collected by the Office of the Administrator for the Courts. The employer and employee obligations to contribute are established per chapter 2.14 RCW. Plan provisions and contribution requirements are established in state statute and may be amended only by the State Legislature.

Current-year covered payroll for JRA employees was \$22.8 million for the fiscal year ended June 30, 2004. For Fiscal Year 2004, the contribution requirement for JRA was \$1.1 million. Actual employer and employee contributions were \$570 thousand each, for a total of \$1.1 million. Plan benefits paid out for Fiscal Year 2004 totaled \$282 thousand.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death shall

be paid to such a person or persons having an insurable interest in the member's life, per written designation of the member.

### **Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF)**

TIAA/CREF, privately administered defined contribution plans, provide individual retirement fund contracts for each eligible employee. There are 37 state participating employers in the TIAA/CREF plan. Eligible employees include higher education faculty and other positions as designated by each institution; participation was established under chapter 28B.10 RCW. The employee must commence participation within the first two years of employment. Once eligible to participate in this system, members are vested immediately.

Employee contribution rates, which are based on age, range from 5 to 10 percent of salary. These rates are matched by the institution and sent to TIAA/CREF. The employer and employee obligations to contribute are established per chapter 28B.10 RCW. For Fiscal Year 2004, covered payroll for TIAA/CREF employees was \$1.3 billion and the contribution requirement for TIAA/CREF was \$215 million. Actual employer and employee contributions were \$107 million each, for a total of \$215 million. These contribution amounts represent approximately 8 percent each of covered payroll for employers and employees.

TIAA/CREF benefits are payable upon termination at the member's option unless the participant is reemployed in another institution which participates in TIAA/CREF. Upon retirement, participant accumulations are used to purchase an annuity. The benefits are determined as follows: TIAA - accumulations are converted to a fixed guaranteed annuity payable for life. In addition to the guaranteed annuity, a dividend payment is declared each year depending on investment performance; CREF - at retirement the value of the fund is converted to a variable annuity. This means the annuity is not guaranteed but rises and falls with the value of equity investments.

### **J. Plan Net Assets and Changes in Plan Net Assets**

Pension plan investments are presented at fair value. Fair values are based on published market prices, quotations from national security exchanges and security pricing services, or by the respective fund managers for securities that are not actively traded. Privately held mortgages are valued at cost, which approximates fair value. Certain pension trust fund investments, including real estate and private equity, are valued based on appraisals or independent advisors. The pension funds have no investments of any commercial or industrial organization whose market value exceeds five percent of

each plan's net assets. Additional disclosure describing investments is provided in Note 3.

The Combining Statement of Plan Net Assets that follows presents the principal components of receivables, investments, and liabilities.

The Combining Statement of Changes in Plan Net Assets presents the additions and deductions to plan net assets.

# Combining Statement of Plan Net Assets

## Pension and Other Employee Benefit Funds

June 30, 2004

(expressed in thousands)

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution	SERS Plan 2/3 Defined Benefit
<b>Assets:</b>							
<b>Cash and pooled investments</b>	\$ 6,407	\$ 798	\$ 56	\$ 5,299	\$ 958	\$ 2,931	\$ 700
<b>Receivables:</b>							
Interest and dividends	27,027	31,166	1,245	22,870	10,948	3,463	4,421
Due from other funds	66	208	4,050	57	3,395	12,243	852
Due from other governments	4,625	7,681	2,824	3,827	3,068	15,177	1,289
Other (net of allowance)	14,610	16,261	647	12,205	5,721	1,799	2,298
<b>Total Receivables</b>	46,328	55,316	8,766	38,959	23,132	32,682	8,860
<b>Investments, Noncurrent:</b>							
Asset backed securities	33,403	38,572	1,541	28,261	13,545	4,285	5,469
Collateralized mort obligations	295,810	341,594	13,642	250,277	119,951	37,947	48,432
Commercial paper	41,035	47,387	1,892	34,719	16,640	5,264	6,719
Corporate bonds	907,382	1,047,824	41,847	767,712	367,943	116,400	148,563
Corporate stock	778,035	898,457	35,882	658,275	315,493	99,806	127,385
Govt securities domestic	122,052	140,942	5,629	103,265	49,492	15,657	19,983
Govt securities foreign	17,097	19,744	789	14,466	6,933	2,193	2,799
Government bonds	4,297	4,962	198	3,637	1,742	551	704
Repurchase agreements	117,963	134,485	5,357	99,677	47,801	14,902	19,294
Certificates of deposit	172,699	199,429	7,965	146,116	70,029	22,154	28,275
Mutual funds	3,753,885	4,334,897	568,061	3,176,065	1,522,196	1,543,822	614,610
Mortgages	298,783	345,029	13,779	252,793	121,156	38,328	48,919
Real estate	870,931	1,005,730	40,166	736,872	353,162	111,723	142,594
Private equity	1,290,356	1,490,073	59,509	1,091,737	523,238	165,527	211,265
Investments on loan	682,286	787,888	31,466	577,265	276,666	87,524	111,708
Short term investments	506,786	588,394	23,777	438,674	213,190	67,459	85,706
Other noncurrent investments	-	-	-	-	-	-	-
<b>Total Investments, Noncurrent</b>	9,892,800	11,425,407	851,500	8,379,811	4,019,177	2,333,542	1,622,425
<b>Total Assets</b>	\$ 9,945,535	\$ 11,481,521	\$ 860,322	\$ 8,424,069	\$ 4,043,267	\$ 2,369,155	\$ 1,631,985
<b>Liabilities:</b>							
Obligations under security lending agreements	\$ 705,422	\$ 812,848	\$ 32,469	\$ 596,710	\$ 286,014	\$ 90,261	\$ 115,498
Accrued liabilities	24,076	16,120	590	19,882	5,763	1,640	2,248
Due to other funds	164	4,896	139	163	12,731	3,372	4,181
<b>Total Liabilities</b>	729,662	833,864	33,198	616,755	304,508	95,273	121,927
<b>Net Assets</b>							
Net Assets Held in Trust for:							
Pension Benefits	9,215,873	10,647,657	827,124	7,807,314	3,738,759	2,273,882	1,510,058
(Schedule of funding progress by plan begins on page 116)							
Deferred Compensation Participants	-	-	-	-	-	-	-
<b>Total Net Assets</b>	\$ 9,215,873	\$ 10,647,657	\$ 827,124	\$ 7,807,314	\$ 3,738,759	\$ 2,273,882	\$ 1,510,058

State of Washington

SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
\$ 776	\$ 2,093	\$ 1,080	\$ 753	\$ 523	\$ 7	\$ 4,358	\$ 16,704	\$ 651	\$ 44,094
1,277	13,803	8,534	1,944	4	-	-	306	-	127,008
3,954	32	14	-	-	-	4	13	-	24,888
3,864	-	5,603	55	15	-	-	-	-	48,028
664	7,231	4,476	1,010	-	-	-	159	1,106	68,187
9,759	21,066	18,627	3,009	19	-	4	478	1,106	268,111
1,581	17,066	10,559	2,404	-	-	-	378	-	157,064
14,003	151,137	93,511	21,290	-	-	-	3,348	-	1,390,942
1,943	20,966	12,972	2,953	-	-	-	465	-	192,955
42,954	463,605	286,840	65,308	-	-	-	10,272	-	4,266,650
36,831	397,519	245,951	55,999	-	-	-	8,810	-	3,658,443
5,778	62,359	38,583	8,784	-	-	-	1,381	-	573,905
809	8,735	5,405	1,231	-	-	-	194	-	80,395
203	2,195	1,358	309	-	-	-	50	-	20,206
5,499	60,065	36,919	8,505	97	1	760	4,233	114	555,672
8,175	88,236	54,593	12,430	-	-	-	1,955	-	812,056
367,327	1,917,957	1,186,668	270,181	-	8,521	-	42,501	1,170,196	20,476,887
14,144	152,656	94,451	21,505	-	-	-	3,382	-	1,404,925
41,229	444,981	275,316	62,684	-	-	-	9,860	-	4,095,248
61,083	659,276	407,904	92,872	-	-	-	14,609	-	6,067,449
32,298	348,599	215,681	49,107	-	-	-	7,726	-	3,208,214
24,393	258,760	167,185	36,680	4,337	-	-	5,722	-	2,421,063
-	-	-	-	-	4,426	-	-	571,822	576,248
658,250	5,054,112	3,133,896	712,242	4,434	12,948	760	114,886	1,742,132	49,958,322
\$ 668,785	\$ 5,077,271	\$ 3,153,603	\$ 716,004	\$ 4,976	\$ 12,955	\$ 5,122	\$ 132,068	\$ 1,743,889	\$ 50,270,527
\$ 33,287	\$ 360,212	\$ 222,625	\$ 50,787	\$ 97	\$ 1	\$ 760	\$ 10,885	\$ 114	\$ 3,317,990
605	8,163	4,092	1,337	141	-	12	161	15	84,845
851	25	154	1	-	-	-	-	-	26,677
34,743	368,400	226,871	52,125	238	1	772	11,046	129	3,429,512
634,042	4,708,871	2,926,732	663,879	4,738	12,954	4,350	121,022	-	45,097,255
-	-	-	-	-	-	-	-	1,743,760	1,743,760
\$ 634,042	\$ 4,708,871	\$ 2,926,732	\$ 663,879	\$ 4,738	\$ 12,954	\$ 4,350	\$ 121,022	\$ 1,743,760	\$ 46,841,015

## Combining Statement of Changes in Plan Net Assets

### Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution	SERS Plan 2/3 Defined Benefit
<b>Additions:</b>							
Contributions:							
Employers	\$ 22,789	\$ 69,377	\$ -	\$ 11,385	\$ 29,921	\$ -	\$ 9,076
Members	61,835	63,870	53,208	45,379	3,719	173,052	3,792
State	-	-	-	-	-	-	-
Participants	-	-	-	-	-	-	-
<b>Total Contributions</b>	<b>84,624</b>	<b>133,247</b>	<b>53,208</b>	<b>56,764</b>	<b>33,640</b>	<b>173,052</b>	<b>12,868</b>
Investment Income:							
Net appreciation (depreciation) in fair value	1,113,199	1,225,571	86,157	938,287	424,261	281,619	171,621
Interest and dividends	217,555	241,433	10,842	183,629	84,579	27,550	34,164
Less: Investment expenses	(11,599)	(13,095)	(814)	(9,796)	(5,288)	(2,157)	(2,116)
<b>Net Investment Income</b>	<b>1,319,155</b>	<b>1,453,909</b>	<b>96,185</b>	<b>1,112,120</b>	<b>503,552</b>	<b>307,012</b>	<b>203,669</b>
Transfers from other pension plans	310	251	21,143	147	439	892	1,631
Other additions	-	-	-	-	1	-	-
<b>Total Additions</b>	<b>1,404,089</b>	<b>1,587,407</b>	<b>170,536</b>	<b>1,169,031</b>	<b>537,632</b>	<b>480,956</b>	<b>218,168</b>
<b>Deductions:</b>							
Pension benefits	828,765	86,174	-	692,243	13,417	-	6,692
Pension refunds	5,628	27,083	26,580	1,792	2,858	25,932	2,025
Transfers to other pension plans	4	22,917	252	-	1,003	380	545
Administrative expenses	414	191	-	111	43	-	41
Distributions to participants	-	-	-	-	-	-	-
<b>Total Deductions</b>	<b>834,811</b>	<b>136,365</b>	<b>26,832</b>	<b>694,146</b>	<b>17,321</b>	<b>26,312</b>	<b>9,303</b>
<b>Net Increase</b>	<b>569,278</b>	<b>1,451,042</b>	<b>143,704</b>	<b>474,885</b>	<b>520,311</b>	<b>454,644</b>	<b>208,865</b>
<b>Net Assets - Beginning</b>	<b>8,646,595</b>	<b>9,196,615</b>	<b>683,420</b>	<b>7,332,429</b>	<b>3,218,448</b>	<b>1,819,238</b>	<b>1,301,193</b>
<b>Net Assets - Ending</b>	<b>\$ 9,215,873</b>	<b>\$ 10,647,657</b>	<b>\$ 827,124</b>	<b>\$ 7,807,314</b>	<b>\$ 3,738,759</b>	<b>\$ 2,273,882</b>	<b>\$ 1,510,058</b>

State of Washington

SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
\$ -	\$ 1	\$ 30,773	\$ 1	\$ 196	\$ 570	\$ -	\$ 771	\$ -	\$ 174,860
43,833	85	51,323	1,378	196	570	-	145	-	502,385
-	-	20,192	-	5,995	-	500	4,351	-	31,038
-	-	-	-	-	-	-	-	147,660	147,660
43,833	86	102,288	1,379	6,387	1,140	500	5,267	147,660	855,943
68,586	561,324	330,557	78,212	(5)	1,131	(46)	12,375	160,210	5,453,059
10,398	109,905	65,292	15,340	64	323	73	2,655	45,941	1,049,743
(526)	(5,850)	(3,936)	(816)	(5)	(17)	(8)	(152)	(2,114)	(58,289)
78,458	665,379	391,913	92,736	54	1,437	19	14,878	204,037	6,444,513
484	-	-	121	-	-	-	-	-	25,418
-	-	-	-	-	18	-	4	2,613	2,636
122,775	665,465	494,201	94,236	6,441	2,595	519	20,149	354,310	7,328,510
-	272,118	6,043	25,724	8,403	282	684	8,503	-	1,949,048
12,364	133	5,720	303	-	-	-	16	-	110,434
290	27	-	-	-	-	-	-	-	25,418
-	151	62	23	-	-	-	51	-	1,087
-	-	-	-	-	-	-	-	73,485	73,485
12,654	272,429	11,825	26,050	8,403	282	684	8,570	73,485	2,159,472
110,121	393,036	482,376	68,186	(1,962)	2,313	(165)	11,579	280,825	5,169,038
523,921	4,315,835	2,444,356	595,693	6,700	10,641	4,515	109,443	1,462,935	41,671,977
\$ 634,042	\$ 4,708,871	\$ 2,926,732	\$ 663,879	\$ 4,738	\$ 12,954	\$ 4,350	\$ 121,022	\$ 1,743,760	\$ 46,841,015



## Note 12 - Commitments and Contingencies

### A. Construction and Other Commitments

Outstanding commitments related to state facility construction, improvement, and/or renovation totaled \$2.3 billion at June 30, 2004.

### B. Summary of Significant Litigation

The state and its agencies are parties to numerous routine legal proceedings that normally occur in governmental operations. At any given point, there may be numerous lawsuits involving state agencies that could impact expenditures. There is a recurring volume of tort and other claims for compensation and damages against the state and some specific state agencies, including the Departments of Transportation, Corrections, Social and Health Services, and the University of Washington. A significant portion of pending litigation relates to the implementation of specific state programs, and funds are reserved each biennium for handling this litigation. The collective impact of these claims, however, is not likely to have a material impact on state revenues or expenditures.

#### Social Service Program Administration Litigation

During the reporting period, there have been additional challenges or developments in pending cases involving the administration of state social service programs. These include:

*Pierce County, et al. v. DSHS, et al.* This case is a challenge to the state's mental health system, which contemplates a joint state-local responsibility for providing a continuum of services. The county asserts that the state agency and the Legislature have failed in their duty to provide care for the mentally ill and developmentally disabled. If relief is granted to the plaintiff, it is difficult to estimate the cost to the agency to comply with the court order but program costs of \$5 million annually are possible, with additional damages of \$1 to \$5 million or higher.

*Arc of Washington v. Quasim; Boyle v. Braddock.* Both of these cases involve challenges to DSHS's administration of programs for developmentally disabled clients. A proposed settlement in the *Arc* case was rejected by the federal court and the case was dismissed. An appeal was taken by plaintiffs to the Ninth Circuit Court of Appeals. The *Boyle* case is a related class action, also dismissed by the federal district court and with an appeal also pending. Biennial costs of providing the expanded program services sought by the so far unsuccessful plaintiffs range from approximately \$165 to \$222 million.

*Braam v. State.* This case involves several years of litigation over the state's foster care system. A post-appeal mediation has resulted in a plan to implement changes in the system. DSHS estimates a cost of approximately \$50 million to comply with the settlement.

*Townsend v. Braddock.* This is a class action on behalf of elderly and disabled adults under the Americans with Disabilities Act (ADA). At issue is whether there will be an expansion of eligibility for a home and community based care program (COPES-like program). Potential costs to the state are unknown but could be in the \$5 million per year range. The case is currently stayed.

#### Higher Education Litigation

*School Districts' Alliance for Adequate Funding of Special Education v. State.* Plaintiffs, a group of school districts, challenge the Legislature's funding formula for special education. The case has a potential fiscal impact of \$200 million a biennium. There is also a threatened challenge to the state's funding of all basic education, which would be an even more significant financial exposure for the state. That lawsuit is expected within the next six to twelve months, if not sooner.

*Brown and WEA v. State.* Plaintiffs challenge the Legislature's funding of two learning improvement days instead of three, alleging a violation of Initiative 732. The potential fiscal impact is in the range of \$15 to \$60 million.

#### Personnel Administration

*WPEA v. State.* In this class action, employees in "common classes" in general government agencies and higher education institutions seek back pay representing salary differentials between higher and lower paid in each set of common classes. The potential fiscal impact is \$10 million per year, beginning in 1996.

#### Tax and Medical Assistance Litigation

There is a recurring volume of lawsuits seeking refunds of taxes paid to the state. All are not reported here. However, *Estate of Hemphill v. Department of Revenue* is a significant estate tax case pending in the State Supreme Court. Should the Department of Revenue not prevail, the refund amounts at issue are approximately \$36 million for 2002, \$65 million for 2003, \$96 million for 2004, and \$113 million in 2005.

There also have in the past been a number of cases involving Medicaid reimbursement claims of significant magnitude or claims related to DSHS medical reimbursement programs. Two cases are currently of significance:

*Capital Medical Center v. State.* This case involves reimbursement to hospitals for emergency care provided to indigent patients. The potential fiscal impact is \$20 million.

*Group Health v. DSHS.* This is a breach of contract claim involving disenrollment of SSI receipts. The potential fiscal impact is estimated at above \$14 million.

#### Natural Resources/State Land Management

*U.S. v. Washington* - Phase II treaty rights litigation. WSDOT has estimated \$200 million in remedial costs associated with existing fish passage barriers which they intend to address over the next 20 years. The Tribes are seeking some “significantly” accelerated remedial schedule and possible a broader definition of “fish passage barrier.” Either result would likely have a significant financial impact on WSDOT. This case has been in settlement discussions for the past two years. In a recent development, the case is now heading to trial (trial date to be established). An earlier trial date and accelerated remedial schedule could increase the short-term liability to the state.

### **C. Federal Assistance**

The state has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the state. The state does estimate and recognize a claims and judgments liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the state’s overall financial condition.

### **D. Arbitrage Rebate**

Rebatable arbitrage is defined by the Internal Revenue Service Code Section 148 as earnings on investments purchased from the gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be

paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue, and therefore limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

### **E. Other Commitments and Contingencies**

#### School Bond Guarantee Program

Washington voters passed a constitutional amendment in November 1999, creating the Washington State School Bond Guarantee Program. The program’s purpose is to provide savings to state taxpayers by pledging the full faith and credit of the state of Washington to the full and timely payment of voter-approved school district general obligation bonds in the event a school district is unable to make a payment. The issuing school district remains responsible for the repayment of the bonds, including any payment the state makes under the guarantee.

The State Treasurer introduced the School Bond Guarantee Program in March 2000. At the end of Fiscal Year 2004, the state had guaranteed 157 school districts’ voter-approved general obligation debt with a total outstanding principal of \$3.8 billion. The state estimates that school bond guarantee liability, if any, will be immaterial to its overall financial condition.

#### Local Option Capital Asset Lending Program (LOCAL)

On September 1, 1998, the state lease-purchase program was extended to local governments seeking low cost financing of essential equipment. The program allows local governments to pool their financing requests together with Washington State agencies in Certificates of Participation (COPs). Refer to Note 7.B for the state’s COP disclosure. These COP’s do not constitute a debt or pledge of the faith and credit of the state, rather local governments pledge their full faith and credit in a general obligation pledge. In the event that any local government fails to make any payment, the state is obligated to withhold an amount sufficient to make such payment from the local government’s share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such local government, if otherwise legally permissible. Upon failure of any local government to make a payment, the state is further obligated, to the extent of legally available appropriated funds to make such payment on behalf of such local government. The local government remains obligated to make all COP payments and reimburse the state for any conditional payments.

As of June 30, 2004, outstanding certificates of participation notes totaled \$43 million for 165 local governments participating in LOCAL. The state estimates that LOCAL program liability, if any, will be immaterial to its overall financial condition.

#### Office Building Lease

The 2001 Legislature authorized the state to lease-develop an office building in Tumwater, Washington. On October 23, 2003, the state entered into a ground lease and a lease agreement with Tumwater Office Properties (TOP), a Washington nonprofit corporation. The agreements call for TOP to design and construct an

office building and to finance it with tax-exempt obligations that meet the requirements of Revenue Ruling 63-20 and Revenue Procedure 82-26 issued by the Internal Revenue Service. The state is required to make monthly payments that equal the required debt service on the bonds. Additional amounts may also be due per the terms of the lease agreement. The lease agreements provide the state with options to purchase the building during the term of the lease and transfer ownership of the building to the state at the end of the lease. The office building is scheduled for occupancy in September 2005.

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## **Note 13 - Subsequent Events**

### **A. Bond Issues**

In July 2004, the state issued \$45.4 million in General Obligation Taxable Bonds, Series 2005T.

In July 2004, the state issued \$350 million in Various Purpose General Obligation Bonds, Series 2005A, \$173.7 million in Motor Vehicle Fuel Tax General Obligation Bonds, Series 2005B, and \$65 million in Motor Vehicle Fuel Tax General Obligation Bonds, Series, 2005C.

### **B. Certificates of Participation**

In July 2004, the state issued \$38.9 million in Certificates of Participation for various state and local government equipment purchases, Series 2004D.

In September 2004, the state issued \$9.8 million in Certificates of Participation for various state and local government equipment purchases, Series 2004E.

In November 2004, the state issued \$8.5 million in Certificates of Participation for various state and local government equipment purchases, Series 2004F.

In December 2004, the state issued \$12 million in Certificates of Participation for various state and local government equipment purchases, Series 2004G.

## **Required Supplementary Information**

## Budgetary Information

### Budgetary Comparison Schedule

#### General Fund

For the Fiscal Year Ended June 30, 2004  
(expressed in thousands)

	General Fund			
	Original Budget 2003-05 Biennium	Final Budget 2003-05 Biennium	Actual 2003-05 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	\$ 404,581	\$ 404,581	\$ 404,581	-
<b>Resources:</b>				
Taxes	22,791,756	22,551,147	11,198,373	(11,352,774)
Licenses, permits, and fees	156,491	154,493	75,513	(78,980)
Other contracts and grants	477,517	503,022	253,180	(249,842)
Timber sales	8,600	8,600	5,465	(3,135)
Federal grants-in-aid	10,630,943	11,125,622	5,363,869	(5,761,753)
Charges for services	78,120	86,950	44,504	(42,446)
Interest income	65,240	65,240	22,159	(43,081)
Miscellaneous revenue	86,885	95,825	55,683	(40,142)
Transfers from other funds	297,642	373,117	307,628	(65,489)
<b>Total Resources</b>	<b>34,997,775</b>	<b>35,368,597</b>	<b>17,730,955</b>	<b>(17,637,642)</b>
<b>Charges to appropriations:</b>				
General government	2,297,684	2,411,876	1,220,044	1,191,832
Human services	17,118,189	17,430,757	8,487,760	8,942,997
Natural resources and recreation	456,814	507,332	247,353	259,979
Transportation	54,139	54,429	27,335	27,094
Education	14,176,517	14,255,138	6,973,417	7,281,721
Capital outlays	244,073	255,626	59,200	196,426
Transfers to other funds	99,884	99,874	172,510	(72,636)
<b>Total Charges to appropriations</b>	<b>34,447,300</b>	<b>35,015,032</b>	<b>17,187,619</b>	<b>17,827,413</b>
<b>Excess available for appropriation</b>				
<b>Over (Under) charges to appropriations</b>	<b>550,475</b>	<b>353,565</b>	<b>543,336</b>	<b>189,771</b>
<b>Reconciling Items:</b>				
Changes in reserves (net)	-	-	(52,917)	(52,917)
Entity adjustments (net)	-	-	9,104	9,104
<b>Total Reconciling Items</b>	<b>-</b>	<b>-</b>	<b>(43,813)</b>	<b>(43,813)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 550,475</b>	<b>\$ 353,565</b>	<b>\$ 499,523</b>	<b>\$ 145,958</b>

## Budgetary Information

### Budgetary Comparison Schedule

#### Budget to GAAP Reconciliation

#### General Fund

For the Fiscal Year Ended June 30, 2004  
(expressed in thousands)

	General Fund
<b>Sources/inflows of resources</b>	
Actual amounts (budgetary basis) "Available for Appropriation" from the Budgetary Comparison Schedule	\$ 17,730,955
Differences - budget to GAAP:	
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:	
Transfers from other funds	(307,628)
Budgetary fund balance at the beginning of the year	(404,581)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:	
Noncash commodities and food stamps	484,693
Unanticipated receipts	70,081
Noncash revenues	9,104
Revenues collected for other governments	27,312
<b>Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds</b>	<b>\$ 17,609,936</b>

<b>Uses/outflows of resources</b>	
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule.	\$ 17,187,619
Differences - budget to GAAP:	
Budgeted expenditure transfers are recorded as expenditures in the budget statement but are recorded as other financing source (use) for financial reporting purposes.	(722,066)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(172,510)
The following items are not outflows of budgetary resources but are recorded as current expenditures for financial reporting purposes.	
Noncash commodities and food stamps	484,693
Expenditures related to unanticipated receipts	70,081
Capital lease acquisitions	5,004
Distributions to other governments	27,312
<b>Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds</b>	<b>\$ 16,880,133</b>

## Budgetary Information

### Notes to Required Supplementary Information

#### General Budgetary Policies and Procedures

The Governor is required to submit a budget to the state Legislature no later than December 20 of the year preceding odd-numbered year sessions of the Legislature. The budget is a proposal for expenditures in the ensuing biennial period based upon anticipated revenues from the sources and rates existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenditures in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year within the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level.

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedules are not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedules extremely cumbersome. Section 2400.121 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases. For the state of Washington, a separate report has been prepared for the 2003-2005 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at agency and appropriation level are presented in Report CAF1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 6639 Capitol Boulevard, PO Box 43113, Olympia, Washington 98504-3113.

Legislative appropriations are strict legal limits on expenditures/expenses, and overexpenditures are

prohibited. All appropriated and certain nonappropriated funds are further controlled by the executive branch through the allotment process. This process allocates the expenditure/expense plan into monthly allotments by program, source of funds, and object of expenditure. According to statute RCW 43.88.110(2), except under limited circumstances, the original allotments are approved by the Governor and may be revised on a quarterly basis and must be accompanied by an explanation of the reasons for significant changes. Because allotments are not the strict legal limit on expenditures/expenses, the budgetary schedules presented as required supplementary information (RSI) are shown on an appropriation versus actual comparison rather than an allotment versus actual comparison.

Proprietary funds typically earn revenues and incur expenses (i.e., depreciation or budgeted asset purchases) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund business plan estimates are adjusted only at the beginning of each fiscal year.

Additional fiscal control is exercised through various means. OFM is authorized to make expenditure/expense allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year. State law does not preclude the over expenditure of allotments, although RCW 43.88.110(3) requires that the Legislature be provided an explanation of major variances.

Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at fiscal year end are reported as reservations of fund balance.

#### Budgetary Reporting versus GAAP Reporting

Governmental funds are budgeted materially in conformance with GAAP. However, the presentation in the accompanying budgetary schedules is different in certain respects from the corresponding Statements of Revenues, Expenditures, and Changes in Fund Balance (governmental operating statement). In the accompanying budgetary schedules, budget and actual expenditures are reported only for appropriated activities. Expenditures are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays.

However, in the governmental operating statements, all governmental funds are included and expenditures are classified according to what was actually purchased. Capital outlays are fixed asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures.

Additionally, certain governmental activities are excluded from the budgetary schedules because they are not appropriated. These activities include: activities designated as nonappropriated by the Legislature, such as the Higher Education Special Revenue Fund, Higher Education Endowment Fund, federal surplus food commodities, electronic food stamp benefits, capital

leases, note proceeds, and resources collected and distributed to other governments.

Further, certain expenditures are appropriated as operating transfers. These transfers are reported as operating transfers on the budgetary schedules and as expenditures on the governmental operating statements. The factors contributing to the differences between the Budgetary Comparison Schedule and the Statement of Revenues, Expenditures, and Changes in Fund Balance are noted in the previous Budget to GAAP reconciliation.

Budgetary Fund Balance includes the following as reported on the Governmental Funds Balance Sheet: Unreserved, undesignated fund balance; Unreserved fund balance, designated for other specific purposes; and Reserved for encumbrances.



## Pension Plan Information

### Public Employees' Retirement System - Plan 1

#### Schedule of Funding Progress

Valuation Years 2003 through 1998 (dollars in millions)

	2003	2002	2001	2000	1999	1998
Actuarial Valuation Date	9/30/2003	9/30/2002	9/30/2001	12/31/2000	12/31/1999	12/31/1998
Actuarial Value of Plan Assets	\$ 10,227	\$ 10,757	\$ 10,990	\$ 11,111	\$ 10,456	\$ 9,219
Actuarial Accrued Liability	12,692	12,560	12,088	11,695	11,636	11,227
Unfunded Actuarial Liability	2,465	1,804	1,098	584	1,180	2,008
Percentage Funded	81%	86%	91%	95%	90%	82%
Covered Payroll	945	1,023	1,085	1,132	1,184	1,233
Unfunded Actuarial Liability as a Percentage of Covered Payroll	261%	176%	101%	52%	100%	163%

Source: Washington State Office of the State Actuary

## Teachers' Retirement System - Plan 1

### Schedule of Funding Progress

Valuation Years 2003 through 1998 (dollars in millions)

	2003	2002	2001	2000	1999	1998
Actuarial Valuation Date	9/30/2003	9/30/2002	9/30/2001	6/30/2000	6/30/1999	6/30/1998
Actuarial Value of Plan Assets	\$ 9,086	\$ 9,365	\$ 9,342	\$ 9,372	\$ 8,696	\$ 7,819
Actuarial Accrued Liability	10,325	10,235	9,895	9,566	9,529	9,354
Unfunded Actuarial Liability	1,239	869	553	194	833	1,535
Percentage Funded	88%	91%	94%	98%	91%	84%
Covered Payroll	692	741	800	957	984	1,046
Unfunded Actuarial Liability as a Percentage of Covered Payroll	179%	117%	69%	20%	85%	147%

Source: Washington State Office of the State Actuary

## Pension Plan Information

### Law Enforcement Officers' and Fire Fighters' Retirement System- Plan 1 Schedule of Funding Progress

Valuation Years 2003 through 1998 (dollars in millions)

	2003	2002	2001	2000	1999	1998
Actuarial Valuation Date	9/30/2003	9/30/2002	9/30/2001	12/31/2000	12/31/1999	12/31/1998
Actuarial Value of Plan Assets	\$ 4,803	\$ 5,095	\$ 5,369	\$ 5,440	\$ 5,150	\$ 4,568
Actuarial Accrued Liability	4,275	4,259	4,153	4,002	4,125	3,906
Unfunded (Assets in Excess of)						
Actuarial Liability	(528)	(836)	(1,216)	(1,437)	(1,024)	(662)
Percentage Funded	112%	120%	129%	136%	125%	117%
Covered Payroll	71	80	87	95	106	117
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary

## Judicial Retirement System

### Schedule of Funding Progress

Valuation Years 2003 through 1998 (dollars in millions)

	2003	2002	2001	2000	1999	1998
Actuarial Valuation Date	9/30/2003	9/30/2002	9/30/2001	12/31/2000	12/31/1999	12/31/1998
Actuarial Value of Plan Assets	\$ 6	\$ 8	\$ 10	\$ 10	\$ 9	\$ 8
Actuarial Accrued Liability	91	92	91	93	94	97
Unfunded Actuarial Liability	85	84	81	83	85	89
Percentage Funded	7%	9%	11%	11%	10%	8%
Covered Payroll	2.6	3.0	3.0	4.0	4.0	4.0
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	3269%	2800%	2700%	2075%	2125%	2225%

Source: Washington State Office of the State Actuary

## Pension Plan Information

### Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

#### Schedule of Funding Progress

Valuation Years 2003 through 1998 (dollars in millions)

	2003	2002	2001	2000	1999	1998
Actuarial Valuation Date	12/31/2003	12/31/2002	12/31/2001	12/31/2000	12/31/1999	12/31/1998
Actuarial Value of Plan Assets	\$ 120	\$ 124	\$ 129	\$ 126	\$ 118	\$ 102
Actuarial Accrued Liability	112	110	99	96	98	94
Unfunded (Assets in Excess of)						
Actuarial Liability	(8)	(14)	(30)	(30)	(20)	(8)
Percentage Funded	107%	113%	130%	131%	120%	109%
Covered Payroll*	N/A	N/A	N/A	N/A	N/A	N/A
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A

\*Covered Payroll is not presented because it is not applicable since this is a volunteer organization.

Source: Washington State Office of the State Actuary

## Judges' Retirement Fund

### Schedule of Funding Progress

Valuation Years 2003 through 1998 (dollars in millions)

	2003	2002	2001	2000	1999	1998
Actuarial Valuation Date	9/30/2003	9/30/2002	9/30/2001	12/31/2000	12/31/1999	12/31/1998
Actuarial Value of Plan Assets	\$ 4.5	\$ 5	\$ 5	\$ 5	\$ 4	\$ 4
Actuarial Accrued Liability	5.2	6	6	6	6	7
Unfunded Actuarial Liability	0.7	1	1	1	2	3
Percentage Funded	87%	83%	83%	83%	67%	57%
Covered Payroll	0.0	0.1	0.1	0.1	0.1	0.1
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	N/A	1000%	1000%	1000%	2000%	3000%

Source: Washington State Office of the State Actuary

## Pension Plan Information

### Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2004 through 1999

	2004	2003	2002	2001	2000	1999
<b>Public Employees' Retirement</b>						
<b>System - Plan 1</b> (expressed in millions)						
Employers' Annual Required Contribution	\$ 295.1	\$ 228.9	\$ 164.3	\$ 118.8	\$ 199.2	\$ 237.6
Employers' Actual Contribution	22.8	56.6	68.6	181.7	200.2	234.3
Percentage Contributed	8%	25%	42%	153%	101%	99%
<b>Public Employees' Retirement</b>						
<b>System - Plan 2/3</b> (expressed in millions)						
Employers' Annual Required Contribution	\$ 192.6	\$ 141.7	\$ 72.0	\$ 55.6	\$ 103.6	\$ 86.6
Employers' Actual Contribution	69.4	38.2	51.0	115.0	101.9	238.4
Percentage Contributed	36%	27%	71%	207%	98%	275%
<b>Teachers' Retirement</b>						
<b>System - Plan 1</b> (expressed in millions)						
Employers' Annual Required Contribution	\$ 185.7	\$ 153.4	\$ 119.8	\$ 90.6	\$ 176.1	\$ 209.7
Employers' Actual Contribution	11.4	20.4	59.5	141.3	183.0	222.5
Percentage Contributed	6%	13%	50%	156%	104%	106%
<b>Teachers' Retirement</b>						
<b>System - Plan 2/3</b> (expressed in millions)						
Employers' Annual Required Contribution	\$ 96.2	\$ 79.5	\$ 66.7	\$ 40.4	\$ 56.2	\$ 45.9
Employers' Actual Contribution	29.9	18.2	46.4	69.6	75.3	100.2
Percentage Contributed	31%	23%	70%	172%	134%	218%
<b>School Employees' Retirement</b>						
<b>System - Plan 2/3</b> (expressed in millions)						
Employers' Annual Required Contribution	\$ 52.3	\$ 44.2	\$ 19.5	\$ 6.7	**	**
Employers' Actual Contribution	9.1	6.2	11.3	19.9	**	**
Percentage Contributed	17%	14%	58%	297%	**	**

Source: Washington State Office of the State Actuary

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

\*\* SERS did not exist prior to 9/1/2000

## Pension Plan Information

### Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2004 through 1999

	2004	2003	2002	2001	2000	1999
<b>Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1</b> (expressed in millions)						
Employers' Annual Required Contribution	\$ -	\$ -	\$ -	\$ -	\$ 6.3	\$ 6.9
Employers' Actual Contribution	-	0.1	0.1	0.1	6.3	7.2
Percentage Contributed	N/A	N/A	N/A	N/A	100%	104%
State Annual Required Contribution	-	-	-	-	-	-
State Actual Contribution	-	-	-	-	-	48.8
Percentage Contributed	N/A	N/A	N/A	N/A	N/A	N/A

<b>Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 2</b> (expressed in millions)						
Employers' Annual Required Contribution	\$ 41.5	\$ 34.1	\$ 26.2	\$ 20.3	\$ 26.9	\$ 22.3
Employers' Actual Contribution	30.8	25.6	24.0	31.5	26.2	34.3
Percentage Contributed	74%	75%	92%	155%	97%	154%
State Annual Required Contribution	27.7	22.7	17.5	13.5	18.0	14.9
State Actual Contribution	20.2	16.4	15.6	20.9	17.1	22.2
Percentage Contributed	73%	72%	89%	155%	95%	149%

<b>Washington State Patrol Retirement System</b> (expressed in millions)						
Employers' Annual Required Contribution	\$ 2.6	\$ -	\$ -	\$ -	\$ -	\$ -
Employers' Actual Contribution	-	-	-	-	-	5.9
Percentage Contributed	0%	N/A	N/A	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

## Pension Plan Information

### Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2004 through 1999

	2004	2003	2002	2001	2000	1999
<b>Judicial Retirement System</b> (expressed in millions)						
Employers' Annual Required Contribution	\$ 18.5	\$ 16.2	\$ 14.2	\$ 13.3	\$ 12.5	\$ 12.2
Employers' Actual Contribution	6.2	6.2	6.2	7.3	7.3	8.8
Percentage Contributed	34%	38%	44%	55%	58%	72%

<b>Judges' Retirement Fund</b> (expressed in millions)						
Employers' Annual Required Contribution	\$ 0.2	\$ 0.1	\$ 0.2	\$ 0.2	\$ 0.3	\$ 0.3
Employers' Actual Contribution	0.5	0.3	0.3	0.8	0.8	0.8
Percentage Contributed	250%	300%	150%	400%	267%	267%

#### **Volunteer Fire Fighters' and and Reserve Officers' Relief and Pension Fund** (expressed in millions)

Employers' Annual Required Contribution	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.7	\$ 0.7	\$ 0.8
Employers' Actual Contribution	0.8	0.8	0.8	0.7	0.7	0.8
Percentage Contributed	100%	100%	100%	100%	100%	100%
State Annual Required Contribution	1.5	0.7	-	-	0.1	0.8
State Actual Contribution	4.4	3.3	3.3	3.3	2.7	2.5
Percentage Contributed	293%	471%	N/A	N/A	2700%	313%

N/A indicates data not available.

Source: Washington State Office of the State Actuary

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match

## Pension Plan Information

### Notes to the Required Supplementary Information

### Defined Benefit Pension Plans

For the Fiscal Year Ended June 30, 2004

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows.

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3	SERS Plan 2/3
Valuation - date	9/30/2003	9/30/2003	9/30/2003	9/30/2003	9/30/2003
Actuarial cost method	entry age	aggregate***	entry age	aggregate***	aggregate***
Amortization Method					
Funding	level %	n/a	level %	n/a	n/a
GASB	level \$	n/a	level \$	n/a	n/a
Remaining amortization period (closed)	6/30/2024	n/a	6/30/2024	n/a	n/a
Asset valuation method	8-year graded smoothed fair value*	8-year graded smoothed fair value*	8-year graded smoothed fair value*	8-year graded smoothed fair value*	8-year graded smoothed fair value*
Actuarial assumptions:					
Investment rate of return	8.00%	8.00%	8.00%	8.00%	8.00%
Projected salary increases					
Salary Inflation at 4.5%, plus the merit increases described below:					
initial salary merit (grades down to 0%)	6.1%	6.1%	6.2%	6.2%	7.0%
merit period (years of service)	17 yrs	17 yrs	17 yrs	17 yrs	17 yrs
Includes inflation at		3.50%		3.50%	3.50%
Cost of living adjustments	Uniform COLA** Gainsharing COLA**	CPI increase, maximum 3%	Uniform COLA** Gainsharing COLA**	CPI increase, maximum 3%	CPI increase, maximum 3%

N/A indicates data not applicable.

\* Asset Valuation Method (8 year smoothed fair value): The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last 8 years or, if fewer, the completed years since adoption, at the following rates per year (annual recognition):

Annual Gain/Loss			Annual Gain/Loss		
Rate of Return	Smoothing Period	Annual Recognition	Rate of Return	Smoothing Period	Annual Recognition
15% and up	8 years	12.50%	6-7%	2 years	50.00%
14-15%	7 years	14.29%	5-6%	3 years	33.33%
13-14%	6 years	16.67%	4-5%	4 years	25.00%
12-13%	5 years	20.00%	3-4%	5 years	20.00%
11-12%	4 years	25.00%	2-3%	6 years	16.67%
10-11%	3 years	33.33%	1-2%	7 years	14.29%
9-10%	2 years	50.00%	1% and lower	8 years	12.50%
7-9%	1 year	100.00%			

The actuarial value of assets is subject to a 30% market corridor, so it will lie between 70% and 130% of the market value of assets.

LEOFF Plan 1	LEOFF Plan 2	WSPRS	JRS	Judges	VFFRPF
9/30/2003	9/30/2003	9/30/2003	9/30/2003	9/30/2003	12/31/2003
entry age	aggregate***	aggregate***	entry age****	entry age****	entry age
level %	n/a	n/a	n/a	n/a	level \$
level \$	n/a	n/a	level \$	level \$	level \$
6/30/2024	n/a	n/a	12/31/2008	12/31/2008	12/31/2017
8-year graded smoothed fair value*	8-year graded smoothed fair value*	8-year graded smoothed fair value*	market	market	4-year smoothed fair value
8.00%	8.00%	8.00%	8.00%	8.00%	8.00% n/a
11.7%	11.7%	6.0%	0.0%	0.0%	n/a
21 yrs	21 yrs	20 yrs			none
3.50%	3.50%	3.50%	3.50%	3.50%	
CPI increase	CPI increase, maximum 3%	CPI increase, maximum 3%	3.00%	none	

\*\* The Uniform COLA and Gainsharing COLA.

Generally, all retirees over age 66 receive an increase in their monthly benefit at least once a year.

The Gainsharing COLA is added every even-numbered year if certain extraordinary investment gains are achieved.

In 1998 it was \$0.11. On 1/1/2000 it was \$0.28 per year of service. On 1/1/2002 and 1/1/2004 no Gainsharing COLA was added.

The Uniform COLA increase is added every July. The next Uniform COLA amount is calculated as the last Uniform COLA amount plus any Gainsharing COLA amount, all increased by 3%.

On 7/1/2000, it was  $(\$0.77 + \$0.28) \times 1.03 = \$1.08$ . On 7/1/2001, it was  $(\$1.08 + \$0.00) \times 1.03 = \$1.11$ .

On 7/1/2002, it was  $(\$1.11 + \$0.00) \times 1.03 = \$1.14$ . On 7/1/2003, it was  $(\$1.14 + \$0.00) \times 1.03 = \$1.18$ .

On 7/1/2004, it was  $(\$1.18 + \$0.00) \times 1.03 = \$1.21$ .

\*\*\* The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

\*\*\*\* The entry age method uses pay-as-you-go as the basis for funding JRS and Judges.



## Information about Infrastructure Assets Reported Using the Modified Approach

### Condition Assessment

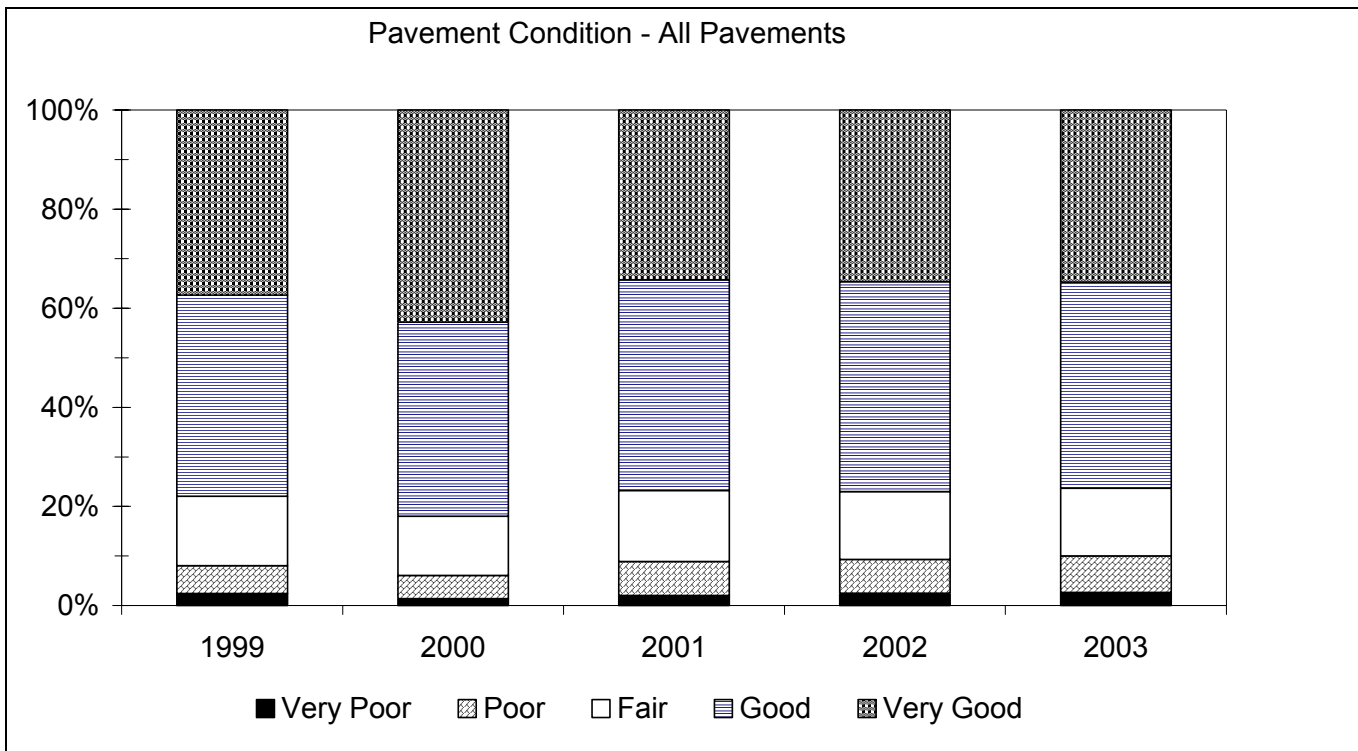
#### Pavement Condition

The Washington State Department of Transportation (WSDOT) owns and maintains 19,970 lane miles of highway, including ramps, collectors and special use lanes. The inclusion of special use lanes and lanes under construction in the total lane miles of highway is new this year. Special use lane miles include slow vehicle, two way turn, chain up, turn/accelerate, transit and HOV lanes. Special use lanes account for 714 of the total lane miles of highway. Lanes under construction account for 26 additional lane miles.

WSDOT has been rating pavement condition since 1969. Pavement rated in *good* condition is smooth and has few defects. Pavement in *poor* condition is characterized by cracking, patching, roughness and rutting. Pavement condition is rated using three factors: Pavement Structural Condition (PSC), International Roughness Index (IRI), and Rutting.

In 1993 the Legislature required WSDOT to rehabilitate pavements at the Lowest Life Cycle Cost (LLCC), which

has been determined to occur at a PSC range between 40 and 60, or when triggers for roughness or rutting are met. The trend over the last six years has shown that the percentage of pavements in poor or very poor condition has remained fairly stable at 8 to 10 percent except in 2000 when it was at 6.1 percent. WSDOT uses LLCC analysis to manage its pavement preservation program. The basic principles are rather simple – if rehabilitation is done too early, pavement life is wasted; if rehabilitation is done too late, very costly repair work may be required, especially if the underlying structure is compromised. WSDOT continually looks for ways to best strike the balance between these two basic principles while recognizing the goal for pavements is zero miles in ‘poor’ condition and marginally good pavements may deteriorate into poor condition during the lag time between assessment and actual rehabilitation. As a result, a small percentage of marginally good pavements will move into the ‘poor’ condition category for any given assessment period.



The Department of Transportation manages State Highways targeting the lowest life cycle cost per the Pavement Management System due date. While the department has a long-term goal of no pavements in poor condition (a pavement condition index less than 40, on a

100 point scale), the policy for the current biennium is to maintain 90 percent of all highway pavement types at a pavement condition index of 40 or better with no more

than 10 percent of its highways at a pavement condition index below 40. The most recent assessment found that State Highways were within the prescribed parameters

with only 10 percent of all pavement types with a pavement condition index below 40.

WSDOT uses the following scale for Pavement Structural Condition (PSC):

Category	PSC Range	Description
Very Good	80 – 100	Little or no distress. Example: Flexible pavement with 5% of wheel track length having “hairline” severity alligator cracking will have a PSC of 80.
Good	60 - 80	Early stage deterioration. Example: Flexible pavement with 15% of wheel track length having “hairline” alligator cracking will have a PSC of 70.
Fair	40 - 60	This is the threshold value for rehabilitation. Example: Flexible pavement with 25% of wheel track length having “hairline” alligator cracking will have a PSC of 50.
Poor	20 - 40	Structural deterioration. Example: Flexible pavement with 25% of wheel track length having “medium (spalled)” severity alligator cracking will have a PSC of 30.
Very Poor	0 - 20	Advanced structural deterioration. Example: Flexible pavement with 40% of wheel track length having “medium (spalled)” severity alligator cracking will have a PSC of 10. May require extensive repair and thicker overlays.

The PSC is a measure based on distresses such as cracking and patching, which are related to the pavement’s ability to carry loads. Pavements develop structural deficiencies due to truck traffic and cold weather. WSDOT attempts to program rehabilitation for pavement segments when they are projected to reach a PSC of 50. A PSC of 50 can occur due to various amounts and severity of distress. Refer to the table above for examples for flexible pavements such as asphalt. For rigid pavements (such as Portland cement concrete), a PSC of 50 represents 50 percent of the concrete slabs exhibiting joint faulting with a severity of 1/8 to 1/4 inch (faulting is the elevation difference at slab joints and results in a rough ride – particularly in large trucks). Further, a PSC of 50 can also be obtained if 25 percent of concrete slabs exhibit two to three cracks per panel.

The International Roughness Index (IRI) uses a scale in inches per mile. Rutting is measured in millimeters. The three indices (PSC, IRI, and Rutting) are combined to rate a section of pavement, which is assigned the lowest category of any of the three ratings. The following table shows the combined explanatory categories and the ratings for each index.

Category	PSC	IRI	Rut
Very Good	100 – 80	< 95	< 4
Good	80 – 60	95 – 170	4 – 8
Fair	60 – 40	170 – 220	8 – 12
Poor	40 – 20	220 – 320	12 – 16
Very Poor	0 – 20	> 320	> 16

Beginning in 1999, the pavement distress survey procedure changed from a windshield survey to an automated survey. In the automated survey, high-resolution video images are collected at highway speed and these video images are then rated on special workstations at 3-6 mph speed. This change has also resulted in a more detailed classification and recording of various distresses that are rated.

Pavement condition surveys are generally conducted in the fall of each year, then analyzed during the winter and spring, with the previous year’s results released in June each year. In calendar year 2003, WSDOT rated pavement condition on 17,702 of the 19,970 lane miles of highway. The chart on the following page shows recent pavement condition ratings for the State Highway System, using the combination of the three indices described above.

**Condition Rating of Washington State Department of Transportation's Pavement**

<b>Percentage of Pavement in Fair or Better Condition</b>					
	<u>2003*</u>	<u>2002*</u>	<u>2001*</u>	<u>2000*</u>	<u>1999*</u>
Statewide - Chip Seals	86	89	89	92	91
Statewide - Asphalt	91	91	92	95	93
Statewide - Concrete	93	92	92	92	90
Statewide - All Pavements	90	91	91	94	92

<b>Percentage of Pavement in Poor or Very Poor Condition</b>					
	<u>2003*</u>	<u>2002*</u>	<u>2001*</u>	<u>2000*</u>	<u>1999*</u>
Statewide - Chip Seals	14	11	11	8	9
Statewide - Asphalt	9	9	8	5	7
Statewide - Concrete	7	8	8	8	10
Statewide - All Pavements	10	9	9	6	8

\* Calendar year data. Assessments are typically made in the fall of each year, and verified during the winter and spring, with final results released in June. Years indicated are when the physical assessment was done in the fall.

**Note:** The All Pavements percentages are calculated from total database averages, not a statistical average of the three pavement type percentages.

More information about pavement management at the Department of Transportation may be obtained at:  
<http://www.wsdot.wa.gov/biz/mats/pavement/structural.htm>

## Bridge Condition

During Fiscal Year 2004 there were 3,076 state-owned vehicular structures over twenty feet in length with a total area of 43,447,898 square feet. In addition to bridges, the 3,076 structures included 77 culverts and 30 ferry terminal structures. All bridges are inspected on a two to four year interval, with no more than 10 percent of the bridges inspected less than every three years. Divers inspect underwater bridge components at least once every five years in accordance with Federal Highway Administration requirements. Special emphasis is given to the ongoing inspection and maintenance of major bridges representing a significant public investment due to size, complexity or strategic location. Information related to public bridges is maintained in the Washington State Bridge Inventory System (WSBIS). This system is used to develop preservation strategies and comprehensive recommendations for maintenance and construction, and for reporting to the Federal Highway Administration (FHWA).

While the WSDOT has a 20 year goal of no structurally deficient bridges, the policy for the current biennium is to maintain 95 percent of its bridges at a structural condition of at least fair, meaning that all primary structural elements are sound. The most recent assessment found that state-owned bridges were within the prescribed parameters with 97 percent having a condition rating of fair or better and only 3 percent of

bridges having a condition rating of poor. Bridges rated as poor may have structural deficiencies that restrict the weight and type of traffic allowed. No bridges that are currently rated as poor are unsafe for public travel. Any bridges determined to be unsafe are closed to traffic. WSDOT had no closed bridges at June 30, 2004.

WSDOT's Bridge Seismic Retrofit Program prioritizes state bridges for seismic retrofit, and performs these retrofits as funding permits. Retrofit priorities are based on seismic risk of a site, structural detail deficiencies, and route importance. From 1980 to the end of June 2003, WSDOT completed 441 full or partial seismic retrofit projects to meet current national standards. An additional 920 retrofits await programming. There are four scheduled seismic retrofits in the 2003-2005 biennium, none of which were completed by June 30, 2004.

The following condition rating data is based on the structural sufficiency standards established in the FHWA "Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation's Bridges." This structural rating relates to the evaluation of bridge superstructure, deck, substructure, structural adequacy and waterway adequacy. Three categories of condition were established in relation to the FHWA criteria as follows:

Category	National Bridge Inventory Code	Description
Good	6, 7, or 8	A range from no problems noted to some minor deterioration of structural elements.
Fair	5	All primary structural elements are sound but may have deficiencies such as minor section loss, deterioration, cracking, spalling or scour.
Poor	4 or less	Advanced deficiencies such as section loss, deterioration, cracking, spalling, scour or seriously affected primary structural components.

Notes: Bridges rated in poor condition may be restricted for the weight and type of traffic allowed.

## Condition Rating of Washington State Department of Transportation's Bridges

Percentage of Bridges in Fair or Better Condition					
Bridge Type	2004	2003	2002	2001	2000
Reinforced Concrete (1,308 bridges in FY 2004)	98	98	97	96	95
Prestressed Concrete (1,277 bridges in FY2004)	99.5	99.5	99.5	99	99
Steel (346 bridges* in FY 2004)	93	93	92	91	91
Timber (65 bridges in FY 2004)	70	69	70	71	71
Statewide - All Bridges (2,996 out of 3,076 bridges in FY 2004)	97.4	97	96.7	96	95

Percentage of Bridges in Poor Condition					
Bridge Type	2004	2003	2002	2001	2000
Reinforced Concrete (24 bridges in FY 2004)	2	2	3	4	5
Prestressed Concrete (4 bridges in FY 2004)	0.5	0.5	0.5	1	1
Steel (24 bridges* in FY 2004)	6.5	7	8	9	9
Timber (28 bridges in FY 2004)	30	31	30	29	29
Statewide - All Bridges (80 out of 3,076 bridges in FY 2004)	2.6	3	3.3	4	5

\*The steel bridge ratings for FY2004 include 24 Ferry terminal structures rated as fair or better and six Ferry terminal structures rated as poor. While the terminals are included in a depreciable asset category, they are included here with bridge condition information since they are evaluated by the WSDOT Bridge Office on a periodic basis.

Note: Bridges rated as poor may have structural deficiencies that restricted the weight and type of traffic allowed. WSDOT currently has 12 posted bridges and

145 restricted bridges. Posted bridges have signs posted which inform of legal weight limits. Restricted bridges are those where overweight permits will not be issued for travel by overweight vehicles. Refer to <http://www.wsdot.wa.gov/freight/mcs/> for more information. Any bridges determined to be unsafe are closed to traffic. WSDOT had one closed bridge at June 30, 2004.

Additional information regarding the Department of Transportation's bridge inspection program may be obtained at: <http://www.wsdot.wa.gov/eesc/bridge/index.cfm>.

## Emergency Air Field Condition

The Washington State Department of Transportation (WSDOT), through its Aviation Division is authorized by RCW 47.68.100 to acquire and maintain airports. Under this authority, WSDOT owns eight emergency airfields and leases several others. Most of the airfields are located near or adjacent to state highways and range in character from paved to gravel or turf. The prime task of the airfields is to provide emergency facilities. Two airfields are in operational condition 12 months of the

year, and five are operational from June to October each year. One is only available for emergency search and rescue use. In accordance with WSDOT policy, maintenance is done on each airfield annually to keep it at its existing condition of use. Each airfield is inspected a minimum of three times per year.

The definitions below form the rating criteria for the current airfield condition ratings which follow.

Category	Definition
General Use Community Airport	An airport with a paved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
Limited Use Community Airport	An airport with an unpaved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
General Recreational Use Airport	An airport with a turf (unpaved) runway near access to recreational opportunities with capacity for aircraft less than 12,500 pounds.
Limited Search and Rescue Forward Operating Location	An airport with a landing pad only capable of accommodating rotorcraft.

### Condition Rating of Washington State Emergency Airfields

<u>Number of Airports</u>						
<b>Owned airports:</b>						
Acceptable for general use as a community airport	1					
Acceptable for limited use as a community airport	1					
Acceptable for general recreation use	5					
Limited search and rescue forward operating location	1					
<b>Total owned airports</b>	<b>8</b>					
		<u><b>2004</b></u>	<u><b>2003</b></u>	<u><b>2002</b></u>	<u><b>2001</b></u>	<u><b>2000</b></u>
Percentage of airports acceptable for general recreational use or better		88	88	88	88	88
Percentage of airports not acceptable for general recreational use or better		12	12	12	12	12

**Notes:** One airport is open only as a limited search and rescue operating location and is expected to remain in that status.

For pictures of specific airfields, refer to the Department of Transportation's website at:  
<http://www.wsdot.wa.gov/Aviation/airports/default.htm>

## Information about Infrastructure Assets Reported Using the Modified Approach

### Comparison of Budgeted-to-Actual Preservation and Maintenance

For the Fiscal Year Ended June 30, 2004  
(expressed in thousands)

	FY 2002			FY 2003			FY 2004		
<b>Pavements</b>									
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Preservation	\$ 134,810	\$ 127,946	\$ 6,864	\$ 119,160	\$ 123,883	\$ (4,723)	\$ 116,902	\$ 107,229	\$ 9,673
Maintenance	23,746	19,485	4,261	22,796	24,123	(1,327)	21,254	18,064	3,190
Total	\$ 158,556	\$ 147,431	\$ 11,125	\$ 141,956	\$ 148,006	\$ (6,050)	\$ 138,156	\$ 125,293	\$ 12,863
<b>Bridges</b>									
Preservation	\$ 24,270	\$ 16,307	\$ 7,963	\$ 22,460	\$ 23,988	\$ (1,528)	\$ 30,637	\$ 24,780	\$ 5,857
Maintenance	11,430	11,012	418	11,222	12,853	(1,631)	11,292	11,267	25
Total	\$ 35,700	\$ 27,319	\$ 8,381	\$ 33,682	\$ 36,841	\$ (3,159)	\$ 41,929	\$ 36,047	\$ 5,882
<b>Emergency Air Fields</b>									
Preservation & Maint.	\$ 70	\$ 64	\$ 6	\$ 70	\$ 58	\$ 12	\$ 70	\$ 71	\$ (1)

In addition to increasing and improving the state highway system, WSDOT places a high priority on preserving and maintaining the current highway system. WSDOT breaks out preservation and maintenance into two separate functions. Preservation can be described as projects that maintain the structural integrity of the existing highway system including roadway pavements, safety features, bridges, and other structures/facilities. The Maintenance function handles the day-to-day needs that occur such as guardrail replacement, patching potholes, installing signs, vegetation control, etc.

In 1996 WSDOT embarked on an initiative to use outcome based performance measures for evaluating the effectiveness of the Maintenance Program. The Maintenance Accountability Process (MAP) is a comprehensive planning, measuring and managing process that provides a means for communicating the impacts of policy and budget decisions on program service delivery. WSDOT uses it to identify investment choices and affects of those choices in communicating with the legislature and other stakeholders. The MAP measures and communicates the outcomes of 34 distinct highway maintenance activities. Maintenance results are measured via field condition surveys and reported as Level of Service (LOS) ratings, which range from A to F. LOS targets are defined in terms of the condition of various highway features (i.e. percent of guardrail on the highway system that is damaged) and are set commensurate with the level of funding provided for the WSDOT highway maintenance program. More

information about MAP may be obtained at: <http://www.wsdot.wa.gov/maintenance/accountability.htm>.

**Notes:** Numbers for the Pavement and Bridges budget amounts are calculated based on the 2003-2005 biennial plan as shown in the WSDOT June 2004 *Monthly Financial Report* for sub-programs P1 (Roadway Preservation), P2 (Structures Preservation), and M2 (Roadway, Bridge & Tunnel maintenance). For FY 2004, the annual budget amount was calculated as half the biennial amount. The Preservation budgeted and actual amounts were adjusted for capitalized infrastructure and equipment in FY 2004.

The emergency airfields (program F3, State Airport Construction and Maintenance) budget amount came from the same sources as for pavements and bridges described above but is only one-fourth of the biennial

The state implemented the requirements of Statement No. 34 of the Governmental Accounting Standards Board (GASB), including the provisions related to capitalizing and reporting infrastructure on the modified approach, in Fiscal Year 2002. While budget to actual information is not available for years prior to Fiscal Year 2002 using the GASB definitions of preservation and maintenance, historical budget to actual information for the entire Construction and Maintenance programs is available by contacting the WSDOT Budget Office at (360) 705-7500.

**Combining and Individual Fund  
Financial Statements –  
Nonmajor Funds**





## **Nonmajor Governmental Funds**

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The nonmajor governmental funds fall into the four categories as described below.

**Special Revenue Funds** account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments and for major capital projects) that are legally restricted to expenditures for specified purposes.

**Debt Service Funds** account for the accumulation of resources for, and the payment of, principal and interest on the state's bonds issued in support of governmental activities.

**Capital Projects Funds** account for the acquisition, construction, or improvement of major capital facilities including higher education facilities (other than those financed by proprietary funds for individuals, private organizations, or other governments).

**Permanent Funds** account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the state or its citizenry.

## Combining Balance Sheet - by Fund Type

### Nonmajor Governmental Funds

June 30, 2004

(expressed in thousands)

	Special Revenue	Debt Service	Capital Projects	Permanent	Total
<b>Assets:</b>					
Cash and pooled investments	\$ 2,101,617	\$ 282,184	\$ 305,503	\$ 26,017	\$ 2,715,321
Investments	18,976	-	-	167,134	186,110
Taxes receivable (net of allowance)	101,992	-	-	-	101,992
Other receivables (net of allowance)	430,636	17,938	13,380	1,421	463,375
Due from other funds	202,666	1,438	36,701	37	240,842
Due from other governments	1,382,170	-	10,405	7	1,392,582
Inventories	33,836	-	-	-	33,836
<b>Total Assets</b>	<b>\$ 4,271,893</b>	<b>\$ 301,560</b>	<b>\$ 365,989</b>	<b>\$ 194,616</b>	<b>\$ 5,134,058</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 242,008	\$ -	\$ 32,521	\$ -	\$ 274,529
Contracts and retainages payable	40,274	-	25,907	-	66,181
Accrued liabilities	80,866	82	1,237	46	82,231
Obligations under security lending agreements	206,879	13,247	9,144	25,710	254,980
Due to other funds	154,752	-	20,132	656	175,540
Due to other governments	111,305	-	923	-	112,228
Deferred revenues	464,560	-	11,246	-	475,806
Claims and judgments payable, current	10,326	-	-	-	10,326
<b>Total Liabilities</b>	<b>1,310,970</b>	<b>13,329</b>	<b>101,110</b>	<b>26,412</b>	<b>1,451,821</b>
<b>Fund Balances:</b>					
Reserved for:					
Encumbrances	258,993	-	264,029	-	523,022
Inventories	33,836	-	-	-	33,836
Permanent funds	-	-	-	168,204	168,204
Other specific purposes	1,193,897	-	850	-	1,194,747
Unreserved, designated for:					
Special Revenue Funds	174	-	-	-	174
Debt Service Funds	-	288,231	-	-	288,231
Unreserved, undesignated reported in:					
Special Revenue Funds	1,474,023	-	-	-	1,474,023
<b>Total Fund Balances</b>	<b>2,960,923</b>	<b>288,231</b>	<b>264,879</b>	<b>168,204</b>	<b>3,682,237</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,271,893</b>	<b>\$ 301,560</b>	<b>\$ 365,989</b>	<b>\$ 194,616</b>	<b>\$ 5,134,058</b>

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - by Fund Type

### Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	Special Revenue	Debt Service	Capital Projects	Permanent	Total
<b>Revenues:</b>					
Retail sales and use taxes	\$ 60,491	\$ -	\$ -	\$ -	\$ 60,491
Business and occupation taxes	59,547	-	-	-	59,547
Property taxes	134,245	-	-	-	134,245
Excise taxes	64,379	-	-	-	64,379
Motor vehicle and fuel taxes	925,723	-	-	-	925,723
Other taxes	630,815	-	-	-	630,815
Licenses, permits, and fees	589,554	-	-	-	589,554
Timber sales	121,110	-	4,823	-	125,933
Other contracts and grants	9,159	-	3,254	-	12,413
Federal grants-in-aid	778,134	-	1,607	6	779,747
Charges for services	430,423	-	31,145	-	461,568
Investment income (loss)	31,109	2,176	279	930	34,494
Miscellaneous revenue	431,319	43,257	16,297	856	491,729
<b>Total Revenues</b>	<b>4,266,008</b>	<b>45,433</b>	<b>57,405</b>	<b>1,792</b>	<b>4,370,638</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	270,045	93	75,633	-	345,771
Human services	961,723	-	12,046	-	973,769
Natural resources and recreation	344,727	-	30,182	-	374,909
Transportation	1,269,482	-	7	-	1,269,489
Education	478,259	-	68,281	-	546,540
<b>Intergovernmental</b>	<b>302,847</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>302,847</b>
<b>Capital outlays</b>	<b>880,447</b>	<b>-</b>	<b>491,841</b>	<b>-</b>	<b>1,372,288</b>
<b>Debt service:</b>					
Principal	5,008	390,145	188	-	395,341
Interest	5,376	457,684	201	-	463,261
<b>Total Expenditures</b>	<b>4,517,914</b>	<b>847,922</b>	<b>678,379</b>	<b>-</b>	<b>6,044,215</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(251,906)</b>	<b>(802,489)</b>	<b>(620,974)</b>	<b>1,792</b>	<b>(1,673,577)</b>
<b>Other Financing Sources (Uses):</b>					
Bonds issued	525,949	-	641,710	-	1,167,659
Refunding bonds issued	-	456,675	-	-	456,675
Payment to refunded bond escrow agent	-	(481,000)	-	-	(481,000)
Notes issued	1,680	-	-	-	1,680
Bond issue premium (discount)	10,538	27,493	32,842	-	70,873
Transfers in	578,663	915,171	85,814	-	1,579,648
Transfers (out)	(623,527)	(18,044)	(25,451)	(7,437)	(674,459)
<b>Total Other Financing Sources (Uses)</b>	<b>493,303</b>	<b>900,295</b>	<b>734,915</b>	<b>(7,437)</b>	<b>2,121,076</b>
<b>Net change in fund balances</b>	<b>241,397</b>	<b>97,806</b>	<b>113,941</b>	<b>(5,645)</b>	<b>447,499</b>
<b>Fund Balances - Beginning, as restated</b>	<b>2,719,526</b>	<b>190,425</b>	<b>150,938</b>	<b>173,849</b>	<b>3,234,738</b>
<b>Fund Balances - Ending</b>	<b>\$ 2,960,923</b>	<b>\$ 288,231</b>	<b>\$ 264,879</b>	<b>\$ 168,204</b>	<b>\$ 3,682,237</b>



## **Nonmajor Special Revenue Funds**

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Special Revenue Funds account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments, or for major capital projects) that are legally restricted to expenditures for specified purposes. The non-major Special Revenue Funds are described below:

**Motor Vehicle Fund** revenues are generated from vehicle fuel taxes, vehicle licenses, and federal transportation agencies. This fund accounts for the following: (1) highway activities of the Washington State Patrol; (2) operations of the state ferry system; and (3) maintenance of non-interstate highways and bridges, completion and preservation of the interstate system, and other transportation improvements.

**Multimodal Transportation Fund** revenues are derived principally from motor vehicle operators. This fund accounts for activities relating to drivers' licensing, driver improvement, financial responsibility, maintenance of driving records, and other non-highway transportation improvements.

**Common School Construction Fund** revenues are obtained principally from the sale of timber and investment earnings. This fund provides financing to local school districts under the control of the State Board of Education for construction of common school facilities.

**The Central Administrative and Regulatory Fund** accounts for operating expenditures of certain administrative and regulatory agencies.

**The Human Services Fund** accounts for the following: (1) funds provided to local governments for the construction or substantial remodeling of detention and correctional facilities; and (2) defraying the cost of administering unemployment compensation.

**The Wildlife and Natural Resources Fund** accounts for the protection and management programs of the state's wildlife, habitats, and natural resources, including forests, water, and parks.

**The Local Construction and Loan Fund** accounts for construction and loan programs for local public works projects.

## Combining Balance Sheet

### Nonmajor Special Revenue Funds

June 30, 2004

(expressed in thousands)

	Motor Vehicle	Multimodal Transportation	Common School Construction	Central Administrative and Regulatory	Human Services
<b>Assets:</b>					
Cash and pooled investments	\$ 521,636	\$ 102,408	\$ 67,305	\$ 301,225	\$ 460,398
Investments	-	-	-	2,766	7,358
Taxes receivable (net of allowance)	79,083	-	-	3,381	12,590
Other receivables (net of allowance)	25,741	4,908	45,943	48,532	231,346
Due from other funds	58,785	6,928	16,546	16,289	64,469
Due from other governments	37,159	24,429	3,632	14,932	105,707
Inventories	29,971	162	-	124	3,350
<b>Total Assets</b>	<b>\$ 752,375</b>	<b>\$ 138,835</b>	<b>\$ 133,426</b>	<b>\$ 387,249</b>	<b>\$ 885,218</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 81,262	\$ 7,894	\$ 988	\$ 18,232	\$ 125,291
Contracts and retainages payable	16,247	2,162	8,440	2,418	271
Accrued liabilities	36,134	1,724	77	4,440	14,454
Obligations under security lending agreements	66,059	14,885	16,894	10,955	55,102
Due to other funds	62,229	4,908	6,598	14,603	35,500
Due to other governments	72,282	4,419	21,311	6,731	850
Deferred revenues	10,183	10,466	43,503	67,249	257,060
Claims and judgments payable, current	-	-	-	10,326	-
<b>Total Liabilities</b>	<b>344,396</b>	<b>46,458</b>	<b>97,811</b>	<b>134,954</b>	<b>488,528</b>
<b>Fund Balances:</b>					
Reserved for:					
Encumbrances	6,775	1,604	18,837	8,755	23,341
Inventories	29,971	162	-	124	3,350
Other specific purposes	1,761	1,251	3,625	8,220	33,093
Unreserved, designated for:					
Special Revenue Funds	-	-	-	-	78
Unreserved, undesignated	369,472	89,360	13,153	235,196	336,828
<b>Total Fund Balances</b>	<b>407,979</b>	<b>92,377</b>	<b>35,615</b>	<b>252,295</b>	<b>396,690</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 752,375</b>	<b>\$ 138,835</b>	<b>\$ 133,426</b>	<b>\$ 387,249</b>	<b>\$ 885,218</b>

Wildlife and Natural Resources	Local Construction and Loan	Total
\$ 525,118	\$ 123,527	\$ 2,101,617
8,852	-	18,976
834	6,104	101,992
65,557	8,609	430,636
32,826	6,823	202,666
352,635	843,676	1,382,170
229	-	33,836
<b>\$ 986,051</b>	<b>\$ 988,739</b>	<b>\$ 4,271,893</b>

\$ 8,212	\$ 129	\$ 242,008
10,736	-	40,274
7,583	16,454	80,866
41,674	1,310	206,879
24,559	6,355	154,752
5,054	658	111,305
57,601	18,498	464,560
-	-	10,326
<b>155,419</b>	<b>43,404</b>	<b>1,310,970</b>

186,128	13,553	258,993
229	-	33,836
341,935	804,012	1,193,897
-	96	174
302,340	127,674	1,474,023
<b>830,632</b>	<b>945,335</b>	<b>2,960,923</b>
<b>\$ 986,051</b>	<b>\$ 988,739</b>	<b>\$ 4,271,893</b>



## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

### Nonmajor Special Revenue Funds

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	Motor Vehicle	Multimodal Transportation	Common School Construction	Central Administrative and Regulatory	Human Services
<b>Revenues:</b>					
Retail sales and use taxes	\$ -	\$ 54,017	\$ -	\$ 6,143	\$ 100
Business and occupation taxes	-	-	-	-	59,547
Property taxes	-	-	-	134,245	-
Excise taxes	(450)	27	-	(40)	15,563
Motor vehicle and fuel taxes	912,196	2,423	-	-	-
Other taxes	29	-	-	107,123	391,033
Licenses, permits, and fees	309,459	60,366	-	76,364	56,835
Timber sales	3	-	53,796	5,341	-
Other contracts and grants	2,750	200	-	1,957	1,101
Federal grants-in-aid	289,196	188,381	261	70,494	179,883
Charges for services	158,830	66,571	-	60,034	142,773
Investment income (loss)	4,320	618	(180)	14,003	3,141
Miscellaneous revenue	11,207	23,261	13,764	26,685	271,820
<b>Total Revenues</b>	<b>1,687,540</b>	<b>395,864</b>	<b>67,641</b>	<b>502,349</b>	<b>1,121,796</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	4,760	78	1,422	182,229	76,704
Human services	-	-	-	46,263	912,563
Natural resources and recreation	360	-	3	13,866	1,671
Transportation	952,131	284,945	-	17,051	14,476
Education	-	-	204,723	227,326	46,194
<b>Intergovernmental</b>	<b>221,406</b>	<b>1,581</b>	<b>-</b>	<b>78,867</b>	<b>914</b>
<b>Capital outlays</b>	<b>734,919</b>	<b>70,375</b>	<b>37,816</b>	<b>13,207</b>	<b>2,672</b>
<b>Debt service:</b>					
Principal	2,885	191	-	486	214
Interest	596	212	-	554	158
<b>Total Expenditures</b>	<b>1,917,057</b>	<b>357,382</b>	<b>243,964</b>	<b>579,849</b>	<b>1,055,566</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(229,517)</b>	<b>38,482</b>	<b>(176,323)</b>	<b>(77,500)</b>	<b>66,230</b>
<b>Other Financing Sources (Uses):</b>					
Bonds issued	458,834	20,000	-	9,215	-
Notes issued	-	-	-	-	1,226
Bond issue premium (discount)	9,003	1,062	-	473	-
Transfers in	94,433	-	143,672	167,545	137,067
Transfers (out)	(212,502)	(34,384)	(99,896)	(110,754)	(120,450)
<b>Total Other Financing Sources (Uses)</b>	<b>349,768</b>	<b>(13,322)</b>	<b>43,776</b>	<b>66,479</b>	<b>17,843</b>
<b>Net change in fund balances</b>	<b>120,251</b>	<b>25,160</b>	<b>(132,547)</b>	<b>(11,021)</b>	<b>84,073</b>
<b>Fund Balances - Beginning, as restated</b>	<b>287,728</b>	<b>67,217</b>	<b>168,162</b>	<b>263,316</b>	<b>312,617</b>
<b>Fund Balances - Ending</b>	<b>\$ 407,979</b>	<b>\$ 92,377</b>	<b>\$ 35,615</b>	<b>\$ 252,295</b>	<b>\$ 396,690</b>

Wildlife and Natural Resources	Local Construction and Loan	Total
\$ 231	\$ -	\$ 60,491
-	-	59,547
-	-	134,245
(1)	49,280	64,379
11,104	-	925,723
94,754	37,876	630,815
86,158	372	589,554
61,970	-	121,110
3,151	-	9,159
49,919	-	778,134
2,215	-	430,423
8,284	923	31,109
74,842	9,740	431,319
392,627	98,191	4,266,008
2,334	2,518	270,045
2,897	-	961,723
318,760	10,067	344,727
879	-	1,269,482
16	-	478,259
79	-	302,847
21,419	39	880,447
1,232	-	5,008
3,842	14	5,376
351,458	12,638	4,517,914
41,169	85,553	(251,906)
17,000	20,900	525,949
454	-	1,680
-	-	10,538
31,290	4,656	578,663
(32,998)	(12,543)	(623,527)
15,746	13,013	493,303
56,915	98,566	241,397
773,717	846,769	2,719,526
\$ 830,632	\$ 945,335	\$ 2,960,923

## Combining Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual

### Nonmajor Special Revenue Funds

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	<b>Motor Vehicle</b>			
	Original Budget 2003-05 Biennium	Final Budget 2003-05 Biennium	Actual 2003-05 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	\$ 256,631	\$ 256,631	\$ 256,631	\$ -
<b>Resources:</b>				
Taxes	1,314,084	1,476,238	690,370	(785,868)
Licenses, permits, and fees	641,226	591,011	308,778	(282,233)
Other contracts and grants	1,574	1,922	2,750	828
Timber sales	-	-	3	3
Federal grants-in-aid	734,474	708,877	284,593	(424,284)
Charges for services	287,412	287,726	158,830	(128,896)
Interest income	24,692	24,692	7,635	(17,057)
Miscellaneous revenue	17,377	31,117	7,696	(23,421)
Transfers from other funds	218,998	218,998	94,433	(124,565)
<b>Total Resources</b>	<b>3,496,468</b>	<b>3,597,212</b>	<b>1,811,719</b>	<b>(1,785,493)</b>
<b>Charges to appropriations:</b>				
General government	11,037	14,068	4,981	9,087
Human services	-	-	-	-
Natural resources and recreation	1,137	1,137	628	509
Transportation	1,269,829	1,270,385	615,735	654,650
Education	-	-	-	-
Capital outlays	2,784,360	2,892,027	1,068,246	1,823,781
Transfers to other funds	453,299	456,395	211,853	244,542
<b>Total Charges to appropriations</b>	<b>4,519,662</b>	<b>4,634,012</b>	<b>1,901,443</b>	<b>2,732,569</b>
<b>Excess available for appropriation</b>				
<b>Over (Under) charges to appropriations</b>	<b>(1,023,194)</b>	<b>(1,036,800)</b>	<b>(89,724)</b>	<b>947,076</b>
<b>Reconciling Items:</b>				
Bond sale proceeds	871,050	871,050	458,834	(412,216)
Bond issue premium (discount)	-	-	9,003	9,003
Changes in reserves (net)	-	-	292	292
Entity adjustments (net)	-	-	(2,158)	(2,158)
Accounting and reporting changes (net)	-	-	-	-
<b>Total Reconciling Items</b>	<b>871,050</b>	<b>871,050</b>	<b>465,971</b>	<b>(405,079)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (152,144)</b>	<b>\$ (165,750)</b>	<b>\$ 376,247</b>	<b>\$ 541,997</b>

Continued

Multimodal Transportation				Common School Construction			
Original Budget 2003-05 Biennium	Final Budget 2003-05 Biennium	Actual 2003-05 Biennium	Variance with Final Budget	Original Budget 2003-05 Biennium	Final Budget 2003-05 Biennium	Actual 2003-05 Biennium	Variance with Final Budget
\$ 65,333	\$ 65,333	\$ 65,333	\$ -	\$ 163,670	\$ 163,670	\$ 163,670	\$ -
108,720	109,514	56,467	(53,047)	-	-	-	-
124,310	122,384	60,366	(62,018)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	72,953	70,020	53,796	(16,224)
35,464	34,180	9,047	(25,133)	3,000	3,000	261	(2,739)
155	155	844	689	-	-	-	-
4,723	4,723	834	(3,889)	12,399	12,399	949	(11,450)
25,906	36,280	13,198	(23,082)	24,176	23,191	13,755	(9,436)
-	-	-	-	378,875	381,465	143,672	(237,793)
364,611	372,569	206,089	(166,480)	655,073	653,745	376,103	(277,642)
477	477	88	389	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
225,213	231,135	88,828	142,307	-	-	-	-
-	-	-	-	-	-	-	-
93,843	103,522	12,177	91,345	783,872	800,122	338,373	461,749
24,900	24,900	11,384	13,516	14,817	14,817	5,481	9,336
344,433	360,034	112,477	247,557	798,689	814,939	343,854	471,085
20,178	12,535	93,612	81,077	(143,616)	(161,194)	32,249	193,443
48,060	48,060	20,000	(28,060)	-	-	-	-
-	-	1,062	1,062	-	-	-	-
-	-	470	470	-	-	867	867
-	-	(24,180)	(24,180)	-	-	(1,126)	(1,126)
-	-	-	-	-	-	-	-
48,060	48,060	(2,648)	(50,708)	-	-	(259)	(259)
\$ 68,238	\$ 60,595	\$ 90,964	\$ 30,369	\$ (143,616)	\$ (161,194)	\$ 31,990	\$ 193,184

## Combining Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual

### Nonmajor Special Revenue Funds

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	Central Administrative and Regulatory			
	Original Budget 2003-05 Biennium	Final Budget 2003-05 Biennium	Actual 2003-05 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	\$ 255,581	\$ 255,581	\$ 255,581	\$ -
<b>Resources:</b>				
Taxes	371,220	375,756	161,193	(214,563)
Licenses, permits, and fees	87,142	87,162	46,551	(40,611)
Other contracts and grants	-	-	-	-
Timber sales	8,123	7,879	5,341	(2,538)
Federal grants-in-aid	62,917	84,151	29,383	(54,768)
Charges for services	73,491	73,186	42,822	(30,364)
Interest income	25,536	25,536	13,617	(11,919)
Miscellaneous revenue	19,246	19,733	10,634	(9,099)
Transfers from other funds	195,876	206,519	146,561	(59,958)
<b>Total Resources</b>	<b>1,099,132</b>	<b>1,135,503</b>	<b>711,683</b>	<b>(423,820)</b>
<b>Charges to appropriations:</b>				
General government	252,393	306,287	109,770	196,517
Human services	95,180	100,405	45,164	55,241
Natural resources and recreation	21,373	21,359	13,676	7,683
Transportation	35,318	40,618	16,047	24,571
Education	398,203	409,642	214,099	195,543
Capital outlays	29,629	29,744	12,739	17,005
Transfers to other funds	102,551	110,457	82,171	28,286
<b>Total Charges to appropriations</b>	<b>934,647</b>	<b>1,018,512</b>	<b>493,666</b>	<b>524,846</b>
<b>Excess available for appropriation</b>				
<b>Over (Under) charges to appropriations</b>	<b>164,485</b>	<b>116,991</b>	<b>218,017</b>	<b>101,026</b>
<b>Reconciling Items:</b>				
Bond sale proceeds	-	-	-	-
Bond issue premium (discount)	-	-	-	-
Changes in reserves (net)	-	-	541	541
Entity adjustments (net)	-	-	26,417	26,417
Accounting and reporting changes (net)	-	-	(1,024)	(1,024)
<b>Total Reconciling Items</b>	<b>-</b>	<b>-</b>	<b>25,934</b>	<b>25,934</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 164,485</b>	<b>\$ 116,991</b>	<b>\$ 243,951</b>	<b>\$ 126,960</b>

Continued

Human Services				Wildlife and Natural Resources			
Original Budget 2003-05 Biennium	Final Budget 2003-05 Biennium	Actual 2003-05 Biennium	Variance with Final Budget	Original Budget 2003-05 Biennium	Final Budget 2003-05 Biennium	Actual 2003-05 Biennium	Variance with Final Budget
\$ 233,999	\$ 233,999	\$ 233,999	\$ -	\$ 467,259	\$ 467,259	\$ 467,259	\$ -
893,873	904,939	466,243	(438,696)	170,005	178,390	106,016	(72,374)
111,197	111,006	55,648	(55,358)	116,810	118,123	58,927	(59,196)
2,004	-	-	-	12,323	8,093	2,957	(5,136)
-	-	-	-	109,699	102,395	61,801	(40,594)
262,620	288,597	133,315	(155,282)	104,748	86,822	45,063	(41,759)
16,004	16,004	102,578	86,574	4,172	4,172	2,206	(1,966)
42,491	42,491	5,368	(37,123)	33,265	32,911	10,432	(22,479)
709,808	708,276	226,368	(481,908)	135,627	139,634	98,879	(40,755)
268,940	265,003	135,535	(129,468)	40,845	44,521	27,477	(17,044)
2,540,936	2,570,315	1,359,054	(1,211,261)	1,194,753	1,182,320	881,017	(301,303)
174,575	180,512	77,351	103,161	4,338	4,365	2,132	2,233
1,753,698	1,704,006	845,964	858,042	6,177	6,174	2,897	3,277
3,996	3,994	1,814	2,180	508,151	501,160	205,473	295,687
33,566	34,670	15,171	19,499	1,165	1,199	515	684
3,461	6,961	1,006	5,955	-	-	-	-
58,756	91,039	13,389	77,650	574,826	595,359	173,701	421,658
236,947	278,137	118,395	159,742	38,150	40,803	31,382	9,421
2,264,999	2,299,319	1,073,090	1,226,229	1,132,807	1,149,060	416,100	732,960
275,937	270,996	285,964	14,968	61,946	33,260	464,917	431,657
-	-	-	-	42,500	42,500	17,000	(25,500)
-	-	-	-	-	-	-	-
-	-	4,071	4,071	-	-	3,815	3,815
-	-	25,029	25,029	-	-	2,736	2,736
-	-	45,183	45,183	-	-	-	-
-	-	74,283	74,283	42,500	42,500	23,551	(18,949)
\$ 275,937	\$ 270,996	\$ 360,247	\$ 89,251	\$ 104,446	\$ 75,760	\$ 488,468	\$ 412,708

## Combining Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual

### Nonmajor Special Revenue Funds

Concluded

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	<b>Local Construction and Loan Fund</b>			
	Original Budget 2003-05 Biennium	Final Budget 2003-05 Biennium	Actual 2003-05 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	\$ 97,370	\$ 97,370	\$ 97,370	\$ -
<b>Resources:</b>				
Taxes	157,109	165,203	87,156	(78,047)
Licenses, permits, and fees	-	-	-	-
Other contracts and grants	-	-	-	-
Timber sales	-	-	-	-
Federal grants-in-aid	-	-	-	-
Charges for services	-	-	-	-
Interest income	3,154	3,154	955	(2,199)
Miscellaneous revenue	130,457	130,457	90,511	(39,946)
Transfers from other funds	16,624	17,124	4,656	(12,468)
<b>Total Resources</b>	<b>404,714</b>	<b>413,308</b>	<b>280,648</b>	<b>(132,660)</b>
<b>Charges to appropriations:</b>				
General government	2,556	2,730	1,426	1,304
Human services	-	-	-	-
Natural resources and recreation	599	599	289	310
Transportation	-	-	-	-
Education	-	-	-	-
Capital outlays	591,072	596,165	132,191	463,974
Transfers to other funds	33,398	33,398	12,543	20,855
<b>Total Charges to appropriations</b>	<b>627,625</b>	<b>632,892</b>	<b>146,449</b>	<b>486,443</b>
<b>Excess available for appropriation</b>				
<b>Over (Under) charges to appropriations</b>	<b>(222,911)</b>	<b>(219,584)</b>	<b>134,199</b>	<b>353,783</b>
<b>Reconciling Items:</b>				
Bond sale proceeds	43,786	43,786	20,900	(22,886)
Bond issue premium (discount)	-	-	-	-
Changes in reserves (net)	-	-	(13,393)	(13,393)
Entity adjustments (net)	-	-	(383)	(383)
Accounting and reporting changes (net)	-	-	-	-
<b>Total Reconciling Items</b>	<b>43,786</b>	<b>43,786</b>	<b>7,124</b>	<b>(36,662)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (179,125)</b>	<b>\$ (175,798)</b>	<b>\$ 141,323</b>	<b>\$ 317,121</b>

## **Nonmajor Debt Service Funds**

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Debt Service Funds account for the accumulation of resources for, and the payment of, principal and interest on the state's bonds issued in support of governmental activities. Debt Service Funds are described below:

**The General Obligation Bond Fund** accounts for the accumulation of resources for, and the payment of, non-transportation related general obligation long-term debt principal and interest.

**The Transportation General Obligation Bond Fund** accounts for the accumulation of resources for, and payment of, general obligation transportation bond principal and interest.

**The Tobacco Settlement Securitization Bond Fund** accounts for the accumulation of resources for, and the payment of, principal and interest on bonds issued by the Tobacco Settlement Authority, a blended component unit of the state.



## Combining Balance Sheet

### Nonmajor Debt Service Funds

June 30, 2004

(expressed in thousands)

	General Obligation Bond	Transportation General Obligation Bond	Tobacco Settlement Securitization Bond	Total
<b>Assets:</b>				
Cash and pooled investments	\$ 130,467	\$ 89,040	\$ 62,677	\$ 282,184
Other receivables (net of allowance)	-	-	17,938	17,938
Due from other funds	1,367	71	-	1,438
<b>Total Assets</b>	<b>\$ 131,834</b>	<b>\$ 89,111</b>	<b>\$ 80,615</b>	<b>\$ 301,560</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accrued liabilities	\$ 67	\$ 8	\$ 7	\$ 82
Obligations under security lending agreements	2,355	10,892	-	13,247
<b>Total Liabilities</b>	<b>2,422</b>	<b>10,900</b>	<b>7</b>	<b>13,329</b>
<b>Fund Balances:</b>				
Unreserved, designated for debt service	129,412	78,211	80,608	288,231
<b>Total Fund Balances</b>	<b>129,412</b>	<b>78,211</b>	<b>80,608</b>	<b>288,231</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 131,834</b>	<b>\$ 89,111</b>	<b>\$ 80,615</b>	<b>\$ 301,560</b>

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

### Nonmajor Debt Service Funds

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	General Obligation Bond	Transportation General Obligation Bond	Tobacco Settlement Securitization Bond	Total
<b>Revenues:</b>				
Investment income (loss)	\$ 36	\$ 23	\$ 2,117	\$ 2,176
Miscellaneous revenue	6,704	-	36,553	43,257
<b>Total Revenues</b>	<b>6,740</b>	<b>23</b>	<b>38,670</b>	<b>45,433</b>
<b>Expenditures:</b>				
General government	-	-	93	93
<b>Debt service:</b>				
Principal	310,375	72,520	7,250	390,145
Interest	346,117	78,337	33,230	457,684
<b>Total Expenditures</b>	<b>656,492</b>	<b>150,857</b>	<b>40,573</b>	<b>847,922</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(649,752)</b>	<b>(150,834)</b>	<b>(1,903)</b>	<b>(802,489)</b>
<b>Other Financing Sources (Uses):</b>				
Refunding bonds issued	243,155	213,520	-	456,675
Payment to refunded bond escrow agent	(255,622)	(225,378)	-	(481,000)
Bond issue premium (discount)	14,213	13,280	-	27,493
Transfers in	763,544	151,627	-	915,171
Transfers (out)	(18,044)	-	-	(18,044)
<b>Total Other Financing Sources (Uses)</b>	<b>747,246</b>	<b>153,049</b>	<b>-</b>	<b>900,295</b>
<b>Net change in fund balances</b>	<b>97,494</b>	<b>2,215</b>	<b>(1,903)</b>	<b>97,806</b>
<b>Fund Balances - Beginning, as restated</b>	<b>31,918</b>	<b>75,996</b>	<b>82,511</b>	<b>190,425</b>
<b>Fund Balances - Ending</b>	<b>\$ 129,412</b>	<b>\$ 78,211</b>	<b>\$ 80,608</b>	<b>\$ 288,231</b>

## Combining Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual Nonmajor Debt Service Funds

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	General Obligation Bond			
	Original Budget 2003-05 Biennium	Final Budget 2003-05 Biennium	Actual 2003-05 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	\$ 60,106	\$ 60,106	\$ 60,106	\$ -
<b>Resources:</b>				
Federal grants-in-aid	-	-	-	-
Interest income	-	-	-	-
Miscellaneous revenue	-	-	-	-
Transfers from other funds	131,368	131,368	166,289	34,921
<b>Total Resources</b>	<b>191,474</b>	<b>191,474</b>	<b>226,395</b>	<b>34,921</b>
<b>Charges to appropriations:</b>				
General government	145,093	152,393	76,601	75,792
Transfers to other funds	-	-	-	-
Debt service	-	-	1,747	(1,747)
<b>Total Charges to appropriations</b>	<b>145,093</b>	<b>152,393</b>	<b>78,348</b>	<b>74,045</b>
<b>Excess available for appropriation</b>				
<b>Over (Under) charges to appropriations</b>	<b>46,381</b>	<b>39,081</b>	<b>148,047</b>	<b>108,966</b>
<b>Reconciling Items:</b>				
Proceeds of refunding bonds	-	-	243,155	243,155
Payments to refunded bond escrow agents	-	-	(255,622)	(255,622)
Bond issue premium (discount)	-	-	14,213	14,213
Entity adjustments (net)	-	-	7,806	7,806
Accounting and reporting changes (net)	-	-	(28,187)	(28,187)
<b>Total Reconciling Items</b>	<b>-</b>	<b>-</b>	<b>(18,635)</b>	<b>(18,635)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 46,381</b>	<b>\$ 39,081</b>	<b>\$ 129,412</b>	<b>\$ 90,331</b>

<b>Transportation General Obligation Bond</b>			
Original Budget 2003-05 Biennium	Final Budget 2003-05 Biennium	Actual 2003-05 Biennium	Variance with Final Budget
\$ 75,996	\$ 75,996	\$ 75,996	\$ -
-	-	-	-
2,690	2,690	660	(2,030)
-	-	-	-
325,032	328,061	151,627	(176,434)
403,718	406,747	228,283	(178,464)
339,032	330,061	149,435	180,626
-	-	-	-
-	-	1,422	(1,422)
339,032	330,061	150,857	179,204
64,686	76,686	77,426	740
-	-	213,520	213,520
-	-	(225,378)	(225,378)
-	-	13,280	13,280
-	-	(637)	(637)
-	-	-	-
-	-	785	785
\$ 64,686	\$ 76,686	\$ 78,211	\$ 1,525



## **Nonmajor Capital Projects Funds**

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Capital Projects Funds account for the acquisition, construction, or improvement of major capital facilities (other than those financed by proprietary funds for individuals, private organizations, or other governments). The Capital Projects Funds are described below:

**The State Facilities Fund** accounts for the construction and remodeling of public buildings.

**The Higher Education Facilities Fund** accounts for the acquisition, construction, and remodeling of higher education facilities.

## Combining Balance Sheet

### Nonmajor Capital Projects Funds

June 30, 2004

(expressed in thousands)

	State Facilities	Higher Education Facilities	Total
<b>Assets:</b>			
Cash and pooled investments	\$ 159,021	\$ 146,482	\$ 305,503
Other receivables (net of allowance)	8,485	4,895	13,380
Due from other funds	27,591	9,110	36,701
Due from other governments	9,684	721	10,405
<b>Total Assets</b>	<b>\$ 204,781</b>	<b>\$ 161,208</b>	<b>\$ 365,989</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 24,591	\$ 7,930	\$ 32,521
Contracts and retainages payable	20,366	5,541	25,907
Accrued liabilities	1,219	18	1,237
Obligations under security lending agreements	-	9,144	9,144
Due to other funds	14,480	5,652	20,132
Due to other governments	923	-	923
Deferred revenues	8,582	2,664	11,246
<b>Total Liabilities</b>	<b>70,161</b>	<b>30,949</b>	<b>101,110</b>
<b>Fund Balances:</b>			
Reserved for:			
Encumbrances	133,770	130,259	264,029
Other specific purposes	850	-	850
<b>Total Fund Balances</b>	<b>134,620</b>	<b>130,259</b>	<b>264,879</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 204,781</b>	<b>\$ 161,208</b>	<b>\$ 365,989</b>

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

### Nonmajor Capital Projects Funds

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	State Facilities	Higher Education Facilities	Total
<b>Revenues:</b>			
Timber sales	\$ 4,781	\$ 42	\$ 4,823
Other contracts and grants	-	3,254	3,254
Federal grants-in-aid	-	1,607	1,607
Charges for services	-	31,145	31,145
Investment income (loss)	2	277	279
Miscellaneous revenue	7,850	8,447	16,297
<b>Total Revenues</b>	12,633	44,772	57,405
<b>Expenditures:</b>			
<b>Current:</b>			
General government	75,139	494	75,633
Human services	12,046	-	12,046
Natural resources and recreation	30,182	-	30,182
Transportation	7	-	7
Education	43,053	25,228	68,281
<b>Capital outlays</b>	338,305	153,536	491,841
<b>Debt service:</b>			
Principal	13	175	188
Interest	45	156	201
<b>Total Expenditures</b>	498,790	179,589	678,379
<b>Excess of Revenues Over (Under) Expenditures</b>	(486,157)	(134,817)	(620,974)
<b>Other Financing Sources (Uses):</b>			
Bonds issued	538,410	103,300	641,710
Bond issue premium (discount)	27,474	5,368	32,842
Transfers in	678	85,136	85,814
Transfers (out)	(6,603)	(18,848)	(25,451)
<b>Total Other Financing Sources (Uses)</b>	559,959	174,956	734,915
<b>Net change in fund balances</b>	73,802	40,139	113,941
<b>Fund Balances - Beginning, as restated</b>	60,818	90,120	150,938
<b>Fund Balances - Ending</b>	\$ 134,620	\$ 130,259	\$ 264,879



## Combining Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual

### Nonmajor Capital Projects Funds

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	State Facilities			
	Original Budget 2003-05 Biennium	Final Budget 2003-05 Biennium	Actual 2003-05 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	\$ 59,815	\$ 59,815	\$ 59,815	\$ -
<b>Resources:</b>				
Other contracts and grants	-	-	-	-
Timber sales	11,375	9,912	4,781	(5,131)
Federal grants-in-aid	-	-	-	-
Charges for services	-	-	-	-
Interest income	526	526	16	(510)
Miscellaneous revenue	17,483	17,458	7,987	(9,471)
Transfers from other funds	829	716	678	(38)
<b>Total Resources</b>	<b>90,028</b>	<b>88,427</b>	<b>73,277</b>	<b>(15,150)</b>
<b>Charges to appropriations:</b>				
General government	9,762	11,898	3,588	8,310
Education	-	-	-	-
Capital outlays	1,573,157	1,583,818	495,325	1,088,493
Transfers to other funds	14,550	15,050	6,603	8,447
<b>Total Charges to appropriations</b>	<b>1,597,469</b>	<b>1,610,766</b>	<b>505,516</b>	<b>1,105,250</b>
<b>Excess available for appropriation</b>				
<b>Over (Under) charges to appropriations</b>	<b>(1,507,441)</b>	<b>(1,522,339)</b>	<b>(432,239)</b>	<b>1,090,100</b>
<b>Reconciling Items:</b>				
Bond sale proceeds	1,272,507	1,272,507	538,410	(734,097)
Bond issue premium (discount)	-	-	27,474	27,474
Changes in reserves (net)	-	-	85	85
Entity adjustments (net)	-	-	40	40
<b>Total Reconciling Items</b>	<b>1,272,507</b>	<b>1,272,507</b>	<b>566,009</b>	<b>(706,498)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (234,934)</b>	<b>\$ (249,832)</b>	<b>\$ 133,770</b>	<b>\$ 383,602</b>

Higher Education Facilities			
Original Budget 2003-05 Biennium	Final Budget 2003-05 Biennium	Actual 2003-05 Biennium	Variance with Final Budget
\$ 90,120	\$ 90,120	\$ 90,120	\$ -
-	-	-	-
132	132	42	(90)
-	-	-	-
47,541	49,262	31,145	(18,117)
9,882	9,882	705	(9,177)
309	309	667	358
67,100	67,100	25,589	(41,511)
215,084	216,805	148,268	(68,537)
273	2,540	544	1,996
150	150	-	150
343,040	460,832	99,991	360,841
18,289	18,290	9,174	9,116
361,752	481,812	109,709	372,103
(146,668)	(265,007)	38,559	303,566
196,330	196,330	103,300	(93,030)
-	-	5,368	5,368
-	-	-	-
-	-	(16,968)	(16,968)
196,330	196,330	91,700	(104,630)
\$ 49,662	\$ (68,677)	\$ 130,259	\$ 198,936



## **Nonmajor Permanent Funds**

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Permanent Funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the state or its citizenry. The state's non-major permanent fund is described below:

**The Common School Permanent Fund** accounts for the principal derived from the sale of timber. Interest earned is used for the benefit of common schools.

**Balance Sheet**  
**Nonmajor Permanent Funds**  
 June 30, 2004  
 (expressed in thousands)

	Common School Permanent
<b>Assets:</b>	
Cash and pooled investments	\$ 26,017
Investments	167,134
Other receivables (net of allowance)	1,421
Due from other funds	37
Due from other governments	7
<b>Total Assets</b>	<b>\$ 194,616</b>
<b>Liabilities and Fund Balances</b>	
<b>Liabilities:</b>	
Accrued liabilities	\$ 46
Obligations under security lending agreements	25,710
Due to other funds	656
<b>Total Liabilities</b>	<b>26,412</b>
<b>Fund Balances:</b>	
Reserved for:	
Permanent funds	168,204
<b>Total Fund Balances</b>	<b>168,204</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 194,616</b>

## Statement of Revenues, Expenditures, and Changes in Fund Balances

### Nonmajor Permanent Funds

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	Common School Permanent
<b>Revenues:</b>	
Investment income	\$ 930
Federal grants-in-aid	6
Miscellaneous revenue	856
<b>Total Revenues</b>	<u>1,792</u>
<b>Other Financing Sources (Uses):</b>	
Transfers (out)	(7,437)
<b>Total Other Financing Sources (Uses)</b>	<u>(7,437)</u>
<b>Net change in fund balances</b>	(5,645)
<b>Fund Balances - Beginning, as restated</b>	<u>173,849</u>
<b>Fund Balances - Ending</b>	<u><u>\$ 168,204</u></u>



## **Nonmajor Enterprise Funds**

---

Enterprise Funds account for any activity for which a fee is charged to external users for goods or services. If an activity's principal revenue source meets any one of the following criteria, it is required to be reported as an enterprise fund: (1) an activity financed with debt that is secured solely by pledge of the net revenues from fees and charges for the activity; (2) laws or regulations which require that the activity's costs of providing services, including capital costs, be recovered with fees and charges, rather than with taxes or similar revenues; or (3) pricing policies which establish fees and charges designed to recover the activity's costs, including capital costs. The Nonmajor Enterprise Funds are described below:

**The Liquor Fund** accounts for the administration and operation of state liquor stores, warehouses, and the distribution of net proceeds.

**The Convention and Trade Fund** accounts for the acquisition, design, construction, promotion, and operation of the State Convention and Trade Center.

**The Lottery Fund** accounts for lottery ticket revenues, administrative and operating expenses of the Lottery Commission, and the distribution of revenue.

**The Institutional Fund** accounts for the enterprise activities (industries) carried out through vocational/education programs at the correctional institutions.

**The Health Insurance Fund** accounts for payment of health care coverage to low-income residents and premiums for employees' insurance benefit contracts.

**The Other Activities Fund** accounts for the following: (1) the guaranteed college tuition program; (2) the operation of computer systems for legislative information; (3) the production and sale of statute law publications and official reports; and (4) Judicial Information System users.



## Combining Statement of Fund Net Assets

### Nonmajor Enterprise Funds

June 30, 2004

(expressed in thousands)

	Liquor	Convention and Trade	Lottery	Institutional
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and pooled investments	\$ 22,104	\$ 37,582	\$ 35,291	\$ 15,995
Investments	-	-	72,388	-
Taxes receivable (net of allowance)	4,728	-	-	-
Other receivables (net of allowance)	4,776	3,226	14,562	146
Due from other funds	577	276	6,299	3,768
Due from other governments	-	-	-	758
Inventories	33,609	-	286	8,592
Prepaid expenses	-	331	225	210
<b>Total Current Assets</b>	65,794	41,415	129,051	29,469
<b>Noncurrent Assets:</b>				
Investments, noncurrent	-	-	466,071	-
Other noncurrent assets	-	-	-	-
<b>Capital Assets:</b>				
Land	177	77,355	-	-
Buildings	15,154	385,662	-	-
Other improvements	134	2,487	770	2,196
Furnishings, equipment, and collections	20,961	4,315	2,690	13,959
Accumulated depreciation	(7,375)	(68,725)	(3,013)	(7,709)
Construction in progress	-	-	-	-
<b>Total Noncurrent Assets</b>	29,051	401,094	466,518	8,446
<b>Total Assets</b>	\$ 94,845	\$ 442,509	\$ 595,569	\$ 37,915
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts payable	\$ 15,709	\$ 23	\$ 2,536	\$ 2,746
Contracts and retainages payable	-	1,912	-	-
Accrued liabilities	13,438	1,864	97,451	862
Obligations under security	-	-	-	-
Bonds and notes payable	2,182	17,380	-	-
Due to other funds	7,164	133	4,884	647
Due to other governments	-	-	105	-
Deferred revenues	-	25	-	24
Claims and judgments payable, current	-	-	-	-
<b>Total Current Liabilities</b>	38,493	21,337	104,976	4,279
<b>Non-Current Liabilities:</b>				
Claims and judgments payable, long-term	-	-	-	-
Bonds and notes payable	9,415	273,265	-	-
Other long-term liabilities	3,576	-	428,288	945
<b>Total Non-Current Liabilities</b>	12,991	273,265	428,288	945
<b>Total Liabilities</b>	51,484	294,602	533,264	5,224
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	17,454	110,449	447	8,446
Restricted for:				
Other specific purposes	-	-	-	-
Unrestricted	25,907	37,458	61,858	24,245
<b>Total Net (Deficit) Assets</b>	\$ 43,361	\$ 147,907	\$ 62,305	\$ 32,691

Health Insurance	Other Activities	Total
\$ 102,682	\$ 113,863	\$ 327,517
18,059	155,320	245,767
-	-	4,728
388	2,497	25,595
36,729	863	48,512
15,330	3,821	19,909
-	-	42,487
-	14	780
173,188	276,378	715,295
47,365	403,381	916,817
-	82,723	82,723
-	-	77,532
-	-	400,816
-	71	5,658
1,366	12,261	55,552
(935)	(10,363)	(98,120)
-	-	-
47,796	488,073	1,440,978
\$ 220,984	\$ 764,451	\$ 2,156,273
\$ 19,023	\$ 1,803	\$ 41,840
16,005	505	18,422
800	13,111	127,526
18,059	155,320	173,379
-	19,940	39,502
36,784	16,790	66,402
-	5,217	5,322
149	35	233
66,879	1,428	68,307
157,699	214,149	540,933
-	1,929	1,929
-	169	282,849
343	464,239	897,391
343	466,337	1,182,169
158,042	680,486	1,723,102
430	1,714	138,940
-	-	-
62,512	82,251	294,231
\$ 62,942	\$ 83,965	\$ 433,171

## Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

### Nonmajor Enterprise Funds

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	Liquor	Convention and Trade	Lottery	Institutional	Health Insurance
<b>Operating Revenues:</b>					
Sales	\$ 422,256	\$ -	\$ -	\$ 45,956	\$ -
Less: Cost of goods sold	281,779	-	-	32,783	-
Gross profit	140,477	-	-	13,173	-
Charges for services	508	13,614	-	-	-
Premiums and assessments	-	-	-	-	1,039,975
Lottery ticket proceeds	-	-	481,440	-	-
Miscellaneous revenue	136	5	253	2,562	1,661
<b>Total Operating Revenues</b>	<b>141,121</b>	<b>13,619</b>	<b>481,693</b>	<b>15,735</b>	<b>1,041,636</b>
<b>Operating Expenses:</b>					
Salaries and wages	31,924	5,704	6,708	10,141	4,259
Employee benefits	9,821	2,571	1,551	2,211	952
Personal services	420	4,797	7,362	-	749
Goods and services	34,431	4,564	50,037	500	3,748
Travel	306	23	472	128	58
Premiums and claims	-	-	-	21	1,033,744
Lottery prize payments	-	-	295,488	-	-
Depreciation and amortization	4,542	8,727	228	1,301	216
Miscellaneous expenses	405	-	6	17	-
<b>Total Operating Expenses</b>	<b>81,849</b>	<b>26,386</b>	<b>361,852</b>	<b>14,319</b>	<b>1,043,726</b>
<b>Operating Income (Loss)</b>	<b>59,272</b>	<b>(12,767)</b>	<b>119,841</b>	<b>1,416</b>	<b>(2,090)</b>
<b>Nonoperating Revenues (Expenses):</b>					
Earnings (loss) on investments	-	-	(13,160)	1	844
Interest expense	(647)	(15,913)	(34,132)	-	-
Distributions to other governments	(30,924)	-	(4,027)	-	-
Other revenue (expenses)	58,651	40,706	16	(84)	(3)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>27,080</b>	<b>24,793</b>	<b>(51,303)</b>	<b>(83)</b>	<b>841</b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>86,352</b>	<b>12,026</b>	<b>68,538</b>	<b>1,333</b>	<b>(1,249)</b>
Capital Contributions	-	4,101	-	171	-
Transfers in	4,663	-	10,844	565	26,998
Transfers (out)	(77,489)	(5,000)	(124,395)	(44)	(27,004)
<b>Net Contributions and Transfers</b>	<b>(72,826)</b>	<b>(899)</b>	<b>(113,551)</b>	<b>692</b>	<b>(6)</b>
<b>Change in Net Assets</b>	<b>13,526</b>	<b>11,127</b>	<b>(45,013)</b>	<b>2,025</b>	<b>(1,255)</b>
<b>Net Assets - Beginning, as restated</b>	<b>29,835</b>	<b>136,780</b>	<b>107,318</b>	<b>30,666</b>	<b>64,197</b>
<b>Net Assets - Ending</b>	<b>\$ 43,361</b>	<b>\$ 147,907</b>	<b>\$ 62,305</b>	<b>\$ 32,691</b>	<b>\$ 62,942</b>

Other Activities	Total
\$ -	\$ 468,212
-	314,562
-	153,650
36,554	50,676
-	1,039,975
-	481,440
3,043	7,660
39,597	1,733,401
16,111	74,847
3,553	20,659
3,904	17,232
13,854	107,134
714	1,701
-	1,033,765
-	295,488
1,570	16,584
26,842	27,270
66,548	1,594,680
(26,951)	138,721
46,355	34,040
(8)	(50,700)
-	(34,951)
38,155	137,441
84,502	85,830
57,551	224,551
-	4,272
-	43,070
(39)	(233,971)
(39)	(186,629)
57,512	37,922
26,453	395,249
\$ 83,965	\$ 433,171

# Combining Statement of Cash Flows

## Nonmajor Enterprise Funds

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	Liquor	Convention and Trade	Lottery	Institutional
<b>Cash Flows from Operating Activities:</b>				
Receipts from customers	\$ 422,671	\$ 13,731	\$ 482,248	\$ 45,273
Payments to suppliers	(320,473)	(10,359)	(420,101)	(33,277)
Payments to employees	(41,694)	(8,378)	(8,370)	(12,227)
Other receipts (payments)	(255)	6	253	2,567
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>60,249</b>	<b>(5,000)</b>	<b>54,030</b>	<b>2,336</b>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Transfers in	4,663	-	10,844	565
Transfers out	(77,489)	(5,000)	(124,395)	(44)
Operating grants and donations received	-	-	-	2
Taxes and license fees collected	57,978	40,703	21	-
Distributions to other governments	(30,924)	-	(4,027)	-
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>(45,772)</b>	<b>35,703</b>	<b>(117,557)</b>	<b>523</b>
<b>Cash Flows from Capital and</b>				
Interest paid	(647)	(13,119)	-	-
Principal payments on long-term capital financing	(2,245)	(16,565)	-	(11)
Proceeds from long-term capital financing	-	-	-	-
Proceeds from sale of capital assets	16	819	-	900
Acquisitions of capital assets	(346)	(460)	(62)	(2,572)
<b>Net Cash or Pooled Investments Provided by (Used in) Capital and Related Financing Activities</b>	<b>(3,222)</b>	<b>(29,325)</b>	<b>(62)</b>	<b>(1,683)</b>
<b>Cash Flows from Investing Activities:</b>				
Receipt of interest	532	-	480	1
Proceeds from sale of investment securities	-	-	147,238	14
Purchases of investment securities	-	-	(81,985)	-
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>532</b>	<b>-</b>	<b>65,733</b>	<b>15</b>
<b>Net Increase (Decrease) in Cash</b>	<b>11,787</b>	<b>1,378</b>	<b>2,144</b>	<b>1,191</b>
Cash and Pooled Investments, July 1	10,317	36,204	33,147	14,804
Cash and Pooled Investments, June 30	\$ 22,104	\$ 37,582	\$ 35,291	\$ 15,995
<b>Cash Flows from Operating Activities:</b>				
Operating Income (Loss)	\$ 59,272	\$ ( 12,767)	\$ 119,841	\$ 1,416
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:</b>				
Depreciation	4,542	8,727	228	1,301
Provision for uncollectible accounts	1	-	5	2
<b>Change in Assets: Decrease (Increase)</b>				
Receivables (net of allowance)	(93)	92	808	(683)
Inventories	(4,570)	-	(8)	(675)
Prepaid expenses	-	15	50	217
<b>Change in Liabilities: Increase (Decrease)</b>				
Payables	1,097	(1,067)	(66,894)	758
<b>Net Cash or Cash Equivalents Provided by (Used in) Operating Activities</b>	<b>\$ 60,249</b>	<b>\$ ( 5,000)</b>	<b>\$ 54,030</b>	<b>\$ 2,336</b>
<b>Noncash Investing, Capital, and Financing Activities:</b>				
Contributions of Capital Assets	\$ -	\$ 4,101	\$ -	\$ 171
Amortization of interest on long-term prize liability	-	-	34,132	-
Increase (decrease) in fair value of investments	-	-	(13,640)	-
Accretion of interest on zero coupon bonds	-	2,901	-	-

Health Insurance	Other Activities	Total
\$ 1,019,373	\$ 25,213	\$ 2,008,509
(975,645)	42,352	(1,717,503)
(24,151)	(19,611)	(114,431)
1,660	3,062	7,293
21,237	51,016	183,868
26,998	-	43,070
(27,004)	(39)	(233,971)
-	-	2
-	37,821	136,523
-	-	(34,951)
(6)	37,782	(89,327)
-	(8)	(13,774)
-	(27,353)	(46,174)
-	30,725	30,725
-	217	1,952
(22)	(780)	(4,242)
(22)	2,801	(31,513)
1,838	(4,960)	(2,109)
47,517	139,198	333,967
(47,950)	(221,718)	(351,653)
1,405	(87,480)	(19,795)
22,614	4,119	43,233
80,068	109,744	284,284
\$ 102,682	\$ 113,863	\$ 327,517
\$ ( 2,090)	\$ ( 26,951)	\$ 138,721
216	1,570	16,584
-	5	13
(20,580)	(11,329)	(31,785)
-	-	(5,253)
-	(6)	276
43,691	87,727	65,312
\$ 21,237	\$ 51,016	\$ 183,868
\$ -	\$ -	\$ 4,272
-	-	34,132
(990)	(50,484)	(65,114)
-	-	2,901



## **Internal Service Funds**

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Internal Service Funds account for state activities that provide goods and services to other state departments or agencies on a cost-reimbursement basis. The Internal Service Funds are described below:

**The General Services Fund** accounts for the cost of providing the following services to state agencies: (1) legal services; (2) operation and management of real estate; (3) facilities and related services; (4) central stores; (5) operations of the motor pool; (6) auditing of state and local governmental units; (7) administration of the state civil service law; (8) administrative hearings; and (9) archives and records management.

**The Data Processing Revolving Fund** accounts for distribution and apportionment of the full cost of data processing and data communication services to other state agencies, and for the payment of other costs incidental to the acquisition, operation, and administration of acquired data processing services, supplies, and equipment.

**The Printing Services Fund** accounts for the operation of the state printing plant.

**The Higher Education Revolving Fund** accounts for stores, data processing, educational, operational printing and duplication, motor pool, and other support service activities at colleges and universities.

**The Risk Management Fund** accounts for the administration of liability, property, and vehicle claims, including investigation, claim processing, negotiation and settlement, and other expenses relating to settlements and judgments against the state not otherwise budgeted.



## Combining Statement of Fund Net Assets

### Internal Service Funds

June 30, 2004

(expressed in thousands)

	General Services	Data Processing Revolving	Printing Services	Higher Education Revolving
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and pooled investments	\$ 43,358	\$ 12,050	\$ 630	\$ 38,298
Investments	1,143	-	-	182
Other receivables (net of allowance)	1,491	193	-	1,968
Due from other funds	31,391	18,111	4,393	6,438
Due from other governments	1,633	2,416	84	599
Inventories	7,630	360	344	11,915
Prepaid expenses	10	1,722	39	3
<b>Total Current Assets</b>	<b>86,656</b>	<b>34,852</b>	<b>5,490</b>	<b>59,403</b>
<b>Noncurrent Assets:</b>				
Investments, noncurrent	-	-	-	39,344
<b>Capital Assets:</b>				
Land	1,365	-	-	30
Buildings	54,219	-	-	5,276
Other improvements	13,095	7,891	-	47
Furnishings, equipment, and collections	341,892	123,757	9,676	76,639
Accumulated depreciation	(181,933)	(95,782)	(7,389)	(59,757)
Construction in progress	11,469	22,589	-	395
<b>Total Noncurrent Assets</b>	<b>240,107</b>	<b>58,455</b>	<b>2,287</b>	<b>61,974</b>
<b>Total Assets</b>	<b>\$ 326,763</b>	<b>\$ 93,307</b>	<b>\$ 7,777</b>	<b>\$ 121,377</b>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts payable	\$ 9,061	\$ 16,807	\$ 2,966	\$ 4,877
Contracts and retainages payable	1,320	-	-	25
Accrued liabilities	6,822	1,499	275	8,225
Obligations under security	1,143	-	-	-
Bonds and notes payable	3,404	-	-	1,155
Due to other funds	4,932	1,553	36	10,942
Due to other governments	86	-	-	-
Deferred revenues	778	-	-	425
Claims and judgments payable, current	-	-	-	7,000
<b>Total Current Liabilities</b>	<b>27,546</b>	<b>19,859</b>	<b>3,277</b>	<b>32,649</b>
<b>Non-Current Liabilities:</b>				
Claims and judgments payable, long-term	-	-	-	24,866
Bonds and notes payable	44,879	-	-	3,866
Other long-term liabilities	10,899	3,950	410	2,822
<b>Total Non-Current Liabilities</b>	<b>55,778</b>	<b>3,950</b>	<b>410</b>	<b>31,554</b>
<b>Total Liabilities</b>	<b>83,324</b>	<b>23,809</b>	<b>3,687</b>	<b>64,203</b>
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	191,824	58,456	2,287	17,609
Unrestricted	51,615	11,042	1,803	39,565
<b>Total Net (Deficit) Assets</b>	<b>\$ 243,439</b>	<b>\$ 69,498</b>	<b>\$ 4,090</b>	<b>\$ 57,174</b>

Risk Management	Total
\$ 70,959	\$ 165,295
-	1,325
-	3,652
968	61,301
62	4,794
-	20,249
-	1,774
71,989	258,390
-	39,344
-	1,395
-	59,495
-	21,033
38	552,002
(36)	(344,897)
-	34,453
2	362,825
\$ 71,991	\$ 621,215
\$ 249	\$ 33,960
-	1,345
95	16,916
-	1,143
-	4,559
3,280	20,743
-	86
34	1,237
74,423	81,423
78,081	161,412
438,908	463,774
-	48,745
31	18,112
438,939	530,631
517,020	692,043
2	270,178
(445,031)	(341,006)
\$ (445,029)	\$ (70,828)

## Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

### Internal Service Funds

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	General Services	Data Processing Revolving	Printing Services	Higher Education Revolving
<b>Operating Revenues:</b>				
Sales	\$ 20,158	\$ 34,078	\$ 32,062	\$ 38,992
Less: Cost of goods sold	13,714	33,671	27,973	31,993
Gross profit	6,444	407	4,089	6,999
Charges for services	238,717	97,535	-	154,068
Premiums and assessments	-	-	-	-
Miscellaneous revenue	27,804	13,311	1	5,065
<b>Total Operating Revenues</b>	<b>272,965</b>	<b>111,253</b>	<b>4,090</b>	<b>166,132</b>
<b>Operating Expenses:</b>				
Salaries and wages	114,097	30,121	2,194	73,010
Employee benefits	25,500	6,229	440	16,274
Personal services	8,951	914	41	6,197
Goods and services	86,670	64,678	1,490	68,342
Travel	2,011	434	14	1,283
Premiums and claims	-	-	-	-
Depreciation and amortization	26,837	18,098	1,238	7,272
Miscellaneous expenses	122	10	-	272
<b>Total Operating Expenses</b>	<b>264,188</b>	<b>120,484</b>	<b>5,417</b>	<b>172,650</b>
<b>Operating Income (Loss)</b>	<b>8,777</b>	<b>(9,231)</b>	<b>(1,327)</b>	<b>(6,518)</b>
<b>Nonoperating Revenues (Expenses):</b>				
Earnings (loss) on investments	223	-	6	1,985
Interest expense	(2,062)	-	-	(1,266)
Other revenue (expenses)	(302)	(167)	-	(290)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(2,141)</b>	<b>(167)</b>	<b>6</b>	<b>429</b>
<b>Income (Loss) Before</b>				
<b>Contributions and Transfers</b>	<b>6,636</b>	<b>(9,398)</b>	<b>(1,321)</b>	<b>(6,089)</b>
Capital Contributions	3,556	-	-	118
Transfers in	18,892	11,222	-	14,088
Transfers (out)	(23,637)	(312)	-	(13,826)
<b>Net Contributions and Transfers</b>	<b>(1,189)</b>	<b>10,910</b>	<b>-</b>	<b>380</b>
<b>Change in Net Assets</b>	<b>5,447</b>	<b>1,512</b>	<b>(1,321)</b>	<b>(5,709)</b>
<b>Net Assets - Beginning, as restated</b>	<b>237,992</b>	<b>67,986</b>	<b>5,411</b>	<b>62,883</b>
<b>Net Assets - Ending</b>	<b>\$ 243,439</b>	<b>\$ 69,498</b>	<b>\$ 4,090</b>	<b>\$ 57,174</b>

Risk Management	Total
\$ -	\$ 125,290
-	107,351
-	17,939
1,639	491,959
96,173	96,173
-	46,181
97,812	652,252
1,025	220,447
205	48,648
48	16,151
27,471	248,651
19	3,761
29,756	29,756
4	53,449
-	404
58,528	621,267
39,284	30,985
-	2,214
-	(3,328)
-	(759)
-	(1,873)
39,284	29,112
-	3,674
-	44,202
-	(37,775)
-	10,101
39,284	39,213
(484,313)	(110,041)
\$ (445,029)	\$ (70,828)

## Combining Statement of Cash Flows

### Internal Service Funds

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	General Services	Data Processing Revolving	Printing Services	Higher Education Revolving
<b>Cash Flows from Operating Activities:</b>				
Receipts from customers	\$ 264,157	\$ 128,528	\$ 32,340	\$ 194,398
Payments to suppliers	(115,431)	(96,960)	(29,290)	(110,537)
Payments to employees	(139,623)	(36,047)	(2,705)	(86,605)
Other receipts (payments)	27,864	13,313	1	5,066
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>36,967</b>	<b>8,834</b>	<b>346</b>	<b>2,322</b>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Transfers in	18,892	11,222	-	14,088
Transfers out	(23,637)	(312)	-	(13,826)
Operating grants and donations received	402	10	-	484
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>(4,343)</b>	<b>10,920</b>	<b>-</b>	<b>746</b>
<b>Cash Flows from Capital and</b>				
Interest paid	(2,176)	-	-	(1,266)
Principal payments on long-term capital financing	(3,723)	-	-	(2,553)
Proceeds from long-term capital financing	4,494	-	-	363
Proceeds from sale of capital assets	41,202	348	-	329
Acquisitions of capital assets	(79,232)	(41,823)	(30)	(6,534)
<b>Net Cash or Pooled Investments Provided by (Used in) Capital and Related Financing Activities</b>	<b>(39,435)</b>	<b>(41,475)</b>	<b>(30)</b>	<b>(9,661)</b>
<b>Cash Flows from Investing Activities:</b>				
Receipt of interest	314	-	6	1,937
Proceeds from sale of investment securities	54	-	-	1,780
Purchases of investment securities	(91)	-	-	(2,034)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>277</b>	<b>-</b>	<b>6</b>	<b>1,683</b>
<b>Net Increase (Decrease) in Cash</b>	<b>(6,534)</b>	<b>(21,721)</b>	<b>322</b>	<b>(4,910)</b>
Cash and Pooled Investments, July 1	49,892	33,771	308	43,208
Cash and Pooled Investments, June 30	<b>\$ 43,358</b>	<b>\$ 12,050</b>	<b>\$ 630</b>	<b>\$ 38,298</b>
<b>Cash Flows from Operating Activities:</b>				
Operating Income (Loss)	\$ 8,777	\$ (9,231)	\$ (1,327)	\$ (6,518)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:</b>				
Depreciation	26,837	18,098	1,238	7,272
Provision for uncollectible accounts	49	-	-	(25)
<b>Change in Assets: Decrease (Increase)</b>				
Receivables (net of allowance)	5,110	(3,086)	277	994
Inventories	(525)	36	(89)	(736)
Prepaid expenses	5	(402)	55	31
<b>Change in Liabilities: Increase (Decrease)</b>				
Payables	(3,286)	3,419	192	1,304
<b>Net Cash or Cash Equivalents Provided by (Used in) Operating Activities</b>	<b>\$ 36,967</b>	<b>\$ 8,834</b>	<b>\$ 346</b>	<b>\$ 2,322</b>
<b>Noncash Investing, Capital, and Financing Activities:</b>				
Contributions of capital assets	\$ 3,556	\$ -	\$ -	\$ 118
Increase (decrease) in fair value of investments	(91)	-	-	-

Risk Management	Total
\$ 97,400	\$ 716,823
(39,562)	(391,780)
(1,223)	(266,203)
-	46,244
56,615	105,084
-	44,202
-	(37,775)
-	896
-	7,323
-	(3,442)
-	(6,276)
-	4,857
-	41,879
-	(127,619)
-	(90,601)
-	2,257
-	1,834
-	(2,125)
-	1,966
56,615	23,772
14,344	141,523
\$ 70,959	\$ 165,295
\$ 39,284	\$ 30,985
4	53,449
-	24
(411)	2,884
-	(1,314)
-	(311)
17,738	19,367
\$ 56,615	\$ 105,084
\$ -	\$ 3,674
-	(91)



## **Fiduciary Funds**

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Fiduciary Funds account for assets held in a trustee or agent capacity for outside parties, including individuals, private organizations, and other governments.





## **Private-Purpose Trust Funds**

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Private-Purpose Trust Funds are used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments. The Private-Purpose Trust Funds are described below:

**The Human Services Trust Fund** accounts for miscellaneous human services activities such as recoveries on behalf of children receiving support payments from non-custodial parents.

**The Other Private-Purpose Trust Fund** accounts for various assets held in trust for other governments, individuals, or the public at large such as the administration of unclaimed property.

## **Agency Funds**

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Agency Funds account for resources held by the state in a custodial capacity for other governments, private organizations, or individuals.. The Agency Funds are described below:

**The Suspense Fund** accounts for receipts where final disposition is pending.

**The Local Government Distributions Fund** accounts for the receipt and allocation of taxes and fees imposed by local governments.

**The Pooled Investments Fund** is used to administer the pooling and investing of surplus state funds, and the accumulation and allocation of interest earned among the various accounts and funds from which such investments and investment deposits were made.

**The Other Agency Fund** accounts for (1) assets held for employees: foster children, inmates, patients, and residents of state institutions; (2) the local government share of contracted timber sales; and (3) monies held under other custodial responsibilities of the state.

## Combining Statement of Fiduciary Net Assets

### Private-Purpose Trust Funds

June 30, 2004

(expressed in thousands)

	Human Services Trust	Other Private-Purpose Trust	Total
<b>Assets</b>			
<b>Current Assets:</b>			
Cash and pooled investments	\$ 429	\$ 4,804	\$ 5,233
Other receivables (net of allowance)	4,654	-	4,654
Due from other funds	-	91	91
<b>Total Current Assets</b>	<b>5,083</b>	<b>4,895</b>	<b>9,978</b>
<b>Noncurrent Assets:</b>			
Investments, noncurrent	-	28,299	28,299
Capital Assets:			
Furnishings, equipment, and collections	-	86	86
Accumulated depreciation	-	(78)	(78)
<b>Total Noncurrent Assets</b>	<b>-</b>	<b>28,307</b>	<b>28,307</b>
<b>Total Assets</b>	<b>\$ 5,083</b>	<b>\$ 33,202</b>	<b>\$ 38,285</b>
<b>Liabilities:</b>			
Accounts payable	\$ 3,239	\$ 199	\$ 3,438
Accrued liabilities	11	4,054	4,065
Due to other funds	-	20	20
Other long-term liabilities	-	28,322	28,322
<b>Total Liabilities</b>	<b>3,250</b>	<b>32,595</b>	<b>35,845</b>
<b>Net Assets:</b>			
Net assets held in trust for:			
Individuals, organizations & other governments	1,833	607	2,440
<b>Total Net Assets</b>	<b>\$ 1,833</b>	<b>\$ 607</b>	<b>\$ 2,440</b>

## Combining Statement of Changes in Fiduciary Net Assets

### Private-Purpose Trust Funds

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

	Human Services Trust	Other Private-Purpose Trust	Total
<b>Additions:</b>			
Investment Income:			
Income (loss) on investing activities	\$ (3)	\$ -	\$ (3)
Other additions:			
Transfers in	-	5,483	5,483
Other contracts, grants and miscellaneous	266	42,187	42,453
Total other additions	266	47,670	47,936
<b>Total Additions</b>	263	47,670	47,933
<b>Deductions:</b>			
Transfers out	-	48,985	48,985
Administrative expenses	1	2,651	2,652
Payments to or on behalf of individuals, organizations and other governments in accordance with trust agreements	267	-	267
<b>Total Deductions</b>	268	51,636	51,904
<b>Net Increase (Decrease)</b>	(5)	(3,966)	(3,971)
<b>Net Assets - Beginning, as restated</b>	1,838	4,573	6,411
<b>Net Assets - Ending</b>	\$ 1,833	\$ 607	\$ 2,440

## Combining Statement of Assets and Liabilities

### Agency Funds

June 30, 2004

(expressed in thousands)

	Suspense	Local Gov't Distrib.	Pooled Investments	Other Agency	Total
<b>Assets:</b>					
Cash and pooled investments	\$ 8,201	\$ 141,790	\$ -	\$ 129,767	\$ 279,758
Investments	-	-	-	1,500	1,500
Other receivables (net of allowance)	33	-	84,507	15,231	99,771
Due from other funds	5,110	246,948	4,941	233,620	490,619
Due from other governments	-	-	-	26,787	26,787
Investments, noncurrent	-	23,211	160,380	9,595	193,186
Other noncurrent assets	-	-	-	67,269	67,269
<b>Total Assets</b>	<b>\$ 13,344</b>	<b>\$ 411,949</b>	<b>\$ 249,828</b>	<b>\$ 483,769</b>	<b>\$ 1,158,890</b>
<b>Liabilities:</b>					
Accounts payable	\$ 1,344	\$ -	\$ -	\$ 14,379	\$ 15,723
Contracts and retainages payable	-	-	-	19,078	19,078
Accrued liabilities	4,923	-	240,737	258,621	504,281
Obligations under security lending agreements	-	23,987	-	1,443	25,430
Due to other funds	2,014	4	9,091	119,495	130,604
Due to other governments	5,063	383,184	-	3,484	391,731
Other long-term liabilities	-	4,774	-	67,269	72,043
<b>Total Liabilities</b>	<b>\$ 13,344</b>	<b>\$ 411,949</b>	<b>\$ 249,828</b>	<b>\$ 483,769</b>	<b>\$ 1,158,890</b>

## Combining Statement of Changes in Assets and Liabilities

### Agency Funds

Continued

For the Fiscal Year Ended June 30, 2004  
(expressed in thousands)

<b>Suspense Fund</b>	Balance June 30, 2003	Additions	Deductions	Balance June 30, 2004
<b>Assets:</b>				
Cash and pooled investments	\$ 12,034	\$ 1,178,055	\$ 1,181,888	\$ 8,201
Other receivables (net of allowance)	31	15,781	15,779	33
Due from other funds	4,679	131,773	131,342	5,110
Due from other governments	-	98	98	-
Investments, noncurrent	-	356	356	-
<b>Total Assets</b>	<b>\$ 16,744</b>	<b>\$ 1,326,063</b>	<b>\$ 1,329,463</b>	<b>\$ 13,344</b>
<b>Liabilities:</b>				
Accounts payable	\$ 2,149	\$ 10,286	\$ 11,091	\$ 1,344
Contracts and retainages payable	2	40	42	-
Accrued liabilities	6,795	193,254	195,126	4,923
Due to other funds	3,049	2,791	3,826	2,014
Due to other governments	4,749	57,861	57,547	5,063
<b>Total Liabilities</b>	<b>\$ 16,744</b>	<b>\$ 264,232</b>	<b>\$ 267,632</b>	<b>\$ 13,344</b>

### Local Government Distributions Fund

<b>Assets:</b>				
Cash and pooled investments	\$ 102,180	\$ 5,985,984	\$ 5,946,374	\$ 141,790
Due from other funds	298,947	-	51,999	246,948
Investments, noncurrent	14,128	10,325	1,242	23,211
<b>Total Assets</b>	<b>\$ 415,255</b>	<b>\$ 5,996,309</b>	<b>\$ 5,999,615</b>	<b>\$ 411,949</b>
<b>Liabilities:</b>				
Accrued liabilities	\$ 465	\$ 777	\$ 1,242	\$ -
Obligations under security lending agreements	13,662	10,325	-	23,987
Due to other funds	11	-	7	4
Due to other governments	396,315	2,392,590	2,405,721	383,184
Other long-term obligations	4,802	28	56	4,774
<b>Total Liabilities</b>	<b>\$ 415,255</b>	<b>\$ 2,403,720</b>	<b>\$ 2,407,026</b>	<b>\$ 411,949</b>

### Pooled Investments Fund\*

<b>Assets:</b>				
Cash and pooled investments	\$ -	\$ 560,282,484	\$ 560,282,484	\$ -
Investments	-	535,242	535,242	-
Other receivables (net of allowance)	19,324	545,092	479,909	84,507
Due from other funds	7,905	-	2,964	4,941
Investments, noncurrent	-	179,815	19,435	160,380
<b>Total Assets</b>	<b>\$ 27,229</b>	<b>\$ 724,907</b>	<b>\$ 502,308</b>	<b>\$ 249,828</b>
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ 705	\$ 705	\$ -
Accrued liabilities	12,454	663,759	435,476	240,737
Due to other funds	14,775	-	5,684	9,091
<b>Total Liabilities</b>	<b>\$ 27,229</b>	<b>\$ 663,759</b>	<b>\$ 441,160</b>	<b>\$ 249,828</b>

\* Beginning balances, as restated.

## Combining Statement of Changes in Assets and Liabilities

### Agency Funds

Concluded

For the Fiscal Year Ended June 30, 2004  
(expressed in thousands)

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
<b><u>Other Agency Funds*</u></b>				
<b>Assets:</b>				
Cash and pooled investments	\$ 60,237	\$ 11,885,893	\$ 11,816,363	\$ 129,767
Investments	1,410	1,500	1,410	1,500
Other receivables (net of allowance)	14,242	117,194	116,205	15,231
Due from other funds	211,198	61,123	38,701	233,620
Due from other governments	25,578	8,231	7,022	26,787
Investments, noncurrent	9,684	103,961	104,050	9,595
Other noncurrent assets	76,674	59,897	69,302	67,269
<b>Total Assets</b>	<b>\$ 399,023</b>	<b>\$ 12,237,799</b>	<b>\$ 12,153,053</b>	<b>\$ 483,769</b>
<b>Liabilities:</b>				
Accounts payable	\$ 12,324	\$ 87,873	\$ 85,818	\$ 14,379
Contracts and retainages payable	14,099	217,718	212,739	19,078
Accrued liabilities	245,651	3,872,335	3,859,365	258,621
Obligations under security lending agreements	514	929	-	1,443
Due to other funds	46,117	129,068	55,690	119,495
Due to other governments	3,644	71,459	71,619	3,484
Other long-term obligations	76,674	59,897	69,302	67,269
<b>Total Liabilities</b>	<b>\$ 399,023</b>	<b>\$ 16,840,936</b>	<b>\$ 4,354,533</b>	<b>\$ 483,769</b>

\* Beginning balances, as restated.

### **Totals - All Agency Funds**

<b>Assets:</b>				
Cash and pooled investments	\$ 174,451	\$ 19,049,932	\$ 18,944,625	\$ 279,758
Investments	1,410	1,500	1,410	1,500
Other receivables (net of allowance)	33,597	678,067	611,893	99,771
Due from other funds	522,729	192,896	225,006	490,619
Due from other governments	25,578	8,329	7,120	26,787
Investments, noncurrent	23,812	294,457	125,083	193,186
Other noncurrent assets	76,674	59,897	69,302	67,269
<b>Total Assets</b>	<b>\$ 858,251</b>	<b>\$ 20,285,078</b>	<b>\$ 19,984,439</b>	<b>\$ 1,158,890</b>
<b>Liabilities:</b>				
Accounts payable	\$ 14,473	\$ 98,159	\$ 96,909	\$ 15,723
Contracts and retainages payable	14,101	217,758	212,781	19,078
Accrued liabilities	265,365	4,730,125	4,491,209	504,281
Obligations under security lending agreements	14,176	11,254	-	25,430
Due to other funds	63,952	131,859	65,207	130,604
Due to other governments	404,708	2,521,910	2,534,887	391,731
Other long-term obligations	81,476	59,925	69,358	72,043
<b>Total Liabilities</b>	<b>\$ 858,251</b>	<b>\$ 7,770,990</b>	<b>\$ 7,470,351</b>	<b>\$ 1,158,890</b>

## **Nonmajor Component Units**

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Discrete component units are entities which are legally separate from the state but which are financially accountable to the state. The nonmajor component units are described below:

**The Washington State Housing Finance Commission** makes funds available to help provide housing throughout the state, and to finance or refinance nursing homes and capital facilities owned and operated by nonprofit corporations.

**The Washington Health Care Facilities Authority** makes funds available to qualified, nonprofit health care facilities in the state.

**The Washington Higher Education Facilities Authority** provides funding to qualified, nonprofit higher education institutions in the state.

**The Washington Economic Development Finance Authority** makes funds available to qualified, small and medium-sized businesses in the state.



# Combining Statement of Fund Net Assets

## Nonmajor Component Units

June 30, 2004

(expressed in thousands)

	Housing Finance	Health Care Facilities	Higher Education Facilities	Economic Development Finance	Total
<b>Assets</b>					
<b>Current Assets:</b>					
Cash and pooled investments	\$ 1,047	\$ 679	\$ 1,015	\$ 34	\$ 2,775
Investments	29,255	856	-	151	30,262
Other receivables (net of allowance)	1,276	115	-	-	1,391
Prepaid expenses	284	35	3	-	322
<b>Total Current Assets</b>	<b>31,862</b>	<b>1,685</b>	<b>1,018</b>	<b>185</b>	<b>34,750</b>
<b>Noncurrent Assets:</b>					
Investments, noncurrent	-	2,123	-	-	2,123
Other noncurrent assets	19,765	-	-	-	19,765
Capital Assets:					
Furnishings, equipment, and collections	1,144	-	-	-	1,144
Accumulated depreciation	(872)	-	-	-	(872)
<b>Total Noncurrent Assets</b>	<b>20,037</b>	<b>2,123</b>	<b>-</b>	<b>-</b>	<b>22,160</b>
<b>Total Assets</b>	<b>\$ 51,899</b>	<b>\$ 3,808</b>	<b>\$ 1,018</b>	<b>\$ 185</b>	<b>\$ 56,910</b>
<b>Liabilities</b>					
<b>Current Liabilities:</b>					
Accounts payable	\$ 1,391	\$ 19	\$ 104	\$ -	\$ 1,514
Accrued liabilities	-	53	-	26	79
Deferred revenues	472	141	146	-	759
<b>Total Current Liabilities</b>	<b>1,863</b>	<b>213</b>	<b>250</b>	<b>26</b>	<b>2,352</b>
<b>Non-Current Liabilities:</b>					
Other long-term liabilities	-	-	-	-	-
<b>Total Non-Current Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>1,863</b>	<b>213</b>	<b>250</b>	<b>26</b>	<b>2,352</b>
<b>Net Assets:</b>					
Invested in capital assets, net of related debt	272	-	-	-	272
Restricted for other purposes	600	-	-	-	600
Unrestricted	\$ 49,164	3,595	768	159	53,686
<b>Total Net (Deficit) Assets</b>	<b>\$ 50,036</b>	<b>\$ 3,595</b>	<b>\$ 768</b>	<b>\$ 159</b>	<b>\$ 54,558</b>

## Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

### Nonmajor Component Units

For the Fiscal Year Ended June 30, 2004  
(expressed in thousands)

	Housing Finance	Health Care Facilities	Higher Education Facilities	Economic Development Finance	Total
<b>Program Revenues:</b>					
Charges for services	\$ 9,068	\$ 634	\$ 320	\$ 249	\$ 10,271
Operating grants and contributions	369	-	-	-	369
<b>Total Program Revenues</b>	<b>9,437</b>	<b>634</b>	<b>320</b>	<b>249</b>	<b>10,640</b>
<b>Expenses:</b>					
<b>Operating Expenses:</b>					
Salaries and wages	3,340	302	-	110	3,752
Employee benefits	870	48	-	28	946
Personal services	407	125	64	-	596
Goods and services	2,257	192	160	66	2,675
Travel	-	18	-	6	24
Depreciation and amortization	125	-	-	-	125
Miscellaneous expenses	-	14	-	-	14
<b>Total Operating Expenses</b>	<b>6,999</b>	<b>699</b>	<b>224</b>	<b>210</b>	<b>8,132</b>
<b>Nonoperating Expenses:</b>					
Pass through grants	369	-	-	-	369
Interest	738	-	-	-	738
<b>Total Nonoperating Expenses</b>	<b>1,107</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,107</b>
<b>Total Expenses</b>	<b>8,106</b>	<b>699</b>	<b>224</b>	<b>210</b>	<b>9,239</b>
<b>General Revenues:</b>					
Earnings (loss) on investments	17	11	6	2	36
<b>Total General Revenues</b>	<b>17</b>	<b>11</b>	<b>6</b>	<b>2</b>	<b>36</b>
<b>Change in Net Assets</b>	<b>1,348</b>	<b>(54)</b>	<b>102</b>	<b>41</b>	<b>1,437</b>
<b>Net Assets - Beginning</b>	<b>48,688</b>	<b>3,649</b>	<b>666</b>	<b>118</b>	<b>53,121</b>
<b>Net Assets - Ending</b>	<b>\$ 50,036</b>	<b>\$ 3,595</b>	<b>\$ 768</b>	<b>\$ 159</b>	<b>\$ 54,558</b>



## Schedules

## Schedule of Revenues and Other Financing Sources (Uses) - Governmental Funds

For the Fiscal Year Ended June 30, 2004  
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
<b>Taxes:</b>					
Retail sales	\$ 5,785,787	\$ -	\$ -	\$ 55,242	\$ 5,841,029
Business and occupation	2,071,161	-	-	59,547	2,130,708
Use (compensating)	388,559	-	-	5,249	393,808
Motor vehicle and fuel	-	-	-	925,723	925,723
Liquor, beer, and wine	100,187	-	-	44,190	144,377
Cigarette and tobacco	62,154	-	-	290,372	352,526
Insurance premiums	217,560	-	-	128,054	345,614
Public utility	318,215	-	-	11,557	329,772
Property	1,392,963	-	-	134,245	1,527,208
Motor vehicle excise	(99)	-	-	(492)	(591)
Other excise	623,050	-	-	64,871	687,921
Gift and inheritance	139,855	-	-	-	139,855
Other taxes	178,459	-	-	156,642	335,101
<b>Subtotal</b>	<b>11,277,851</b>	<b>-</b>	<b>-</b>	<b>1,875,200</b>	<b>13,153,051</b>
<b>Tax Credits:</b>					
Business and occupation	(52,443)	-	-	-	(52,443)
Use (compensating)	(338)	-	-	-	(338)
Other tax credits	(18)	-	-	-	(18)
<b>Total Taxes</b>	<b>11,225,052</b>	<b>-</b>	<b>-</b>	<b>1,875,200</b>	<b>13,100,252</b>
<b>Licenses, Permits, and Fees:</b>					
Business and professions	55,053	-	-	77,070	132,123
Hunting and fishing	1,685	-	-	27,696	29,381
Motor vehicle	3,577	505	-	330,161	334,243
Motor vehicle operators	1	-	-	47,811	47,812
Other fees	15,197	-	-	106,816	122,013
<b>Total Licenses, Permits, and Fees</b>	<b>75,513</b>	<b>505</b>	<b>-</b>	<b>589,554</b>	<b>665,572</b>
<b>Federal Grants-In-Aid:</b>					
Department of Health and Human Services	4,105,652	508,480	-	1,578	4,615,710
Department of Labor	140,767	183	-	109,887	250,837
Department of Agriculture	744,766	29,836	-	90,173	864,775
Department of Transportation	1,535	2,760	-	478,389	482,684
Department of Education	540,366	245,164	-	85	785,615
Other federal grants-in-aid	383,696	218,602	-	99,635	701,933
<b>Total Federal Grants-In-Aid</b>	<b>5,916,782</b>	<b>1,005,025</b>	<b>-</b>	<b>779,747</b>	<b>7,701,554</b>
<b>Charges For Services:</b>					
Tuition and student fees	-	858,985	-	31,285	890,270
Other charges	44,504	173,331	7	430,283	648,125
<b>Total Charges For Services</b>	<b>44,504</b>	<b>1,032,316</b>	<b>7</b>	<b>461,568</b>	<b>1,538,395</b>
<b>Miscellaneous Revenue:</b>					
Investment income	4,795	66,533	188,578	34,494	294,400
Timber sales	5,465	-	8,256	125,933	139,654
Fines and forfeitures	2,137	5,706	2	101,482	109,327
Other contracts and grants	253,180	491,978	-	12,413	757,571
Other	82,508	117,067	49,439	390,247	639,261
<b>Total Miscellaneous Revenue</b>	<b>348,085</b>	<b>681,284</b>	<b>246,275</b>	<b>664,569</b>	<b>1,940,213</b>
<b>Total Revenues</b>	<b>17,609,936</b>	<b>2,719,130</b>	<b>246,282</b>	<b>4,370,638</b>	<b>24,945,986</b>
<b>Other Financing Sources (Uses):</b>					
Bonds issued	-	-	-	1,167,659	1,167,659
Refunding bonds issued	-	-	-	456,675	456,675
Payment to refunded bond escrow agent	-	-	-	(481,000)	(481,000)
Notes issued	4,960	11,475	-	1,680	18,115
Bond issue premium (discount)	-	8	-	70,873	70,881
Transfers in	308,108	207,913	4,230	1,579,648	2,099,899
Transfers (out)	(895,006)	(250,539)	(43,624)	(674,459)	(1,863,628)
Capital lease acquisitions	44	-	-	-	44
<b>Total Other Financing Sources (Uses)</b>	<b>(581,894)</b>	<b>(31,143)</b>	<b>(39,394)</b>	<b>2,121,076</b>	<b>1,468,645</b>
<b>Total Revenues and Other Financing Sources (Uses)</b>	<b>\$ 17,028,042</b>	<b>\$ 2,687,987</b>	<b>\$ 206,888</b>	<b>\$ 6,491,714</b>	<b>\$ 26,414,631</b>

## Schedule of Expenditures - Governmental Funds

For the Fiscal Year Ended June 30, 2004  
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
<b>By Function:</b>					
General government	\$ 550,916	\$ -	\$ -	\$ 1,566,463	\$ 2,117,379
Human services	9,033,321	-	-	1,033,163	10,066,484
Natural resources and recreation	280,941	-	-	439,554	720,495
Transportation	28,151	426	-	2,085,506	2,114,083
Education	6,986,804	2,676,335	24	919,529	10,582,692
<b>Total Expenditures</b>	<b>\$ 16,880,133</b>	<b>\$ 2,676,761</b>	<b>\$ 24</b>	<b>\$ 6,044,215</b>	<b>\$ 25,601,133</b>
<b>By Object:</b>					
Salaries and wages	\$ 2,359,593	\$ 1,041,601	\$ 4	\$ 864,661	\$ 4,265,860
Employee benefits	522,158	335,629	1	188,146	1,045,934
Personal services	78,342	24,965	-	43,109	146,416
Goods and services	992,833	619,259	10	624,787	2,236,890
Travel	36,503	57,818	5	29,626	123,952
<b>Subtotal</b>	<b>3,989,429</b>	<b>2,079,273</b>	<b>20</b>	<b>1,750,329</b>	<b>7,819,051</b>
<b>Grants and Subsidies:</b>					
K-12 basic education	5,623,196	-	-	258,820	5,882,016
Public assistance	6,344,661	-	-	433,611	6,778,272
Other miscellaneous	818,438	481,994	4	1,067,718	2,368,154
<b>Total Grants and Subsidies</b>	<b>12,786,295</b>	<b>481,994</b>	<b>4</b>	<b>1,760,149</b>	<b>15,028,442</b>
<b>Intergovernmental</b>	<b>26,678</b>	<b>-</b>	<b>-</b>	<b>302,847</b>	<b>329,525</b>
<b>Capital Outlays:</b>					
Equipment	28,275	49,127	-	29,351	106,752
All other	39,196	52,810	-	1,342,937	1,434,944
<b>Total Capital Outlays</b>	<b>67,471</b>	<b>101,937</b>	<b>-</b>	<b>1,372,288</b>	<b>1,541,696</b>
<b>Debt Service:</b>					
Principal	10,140	9,247	-	395,341	414,728
Interest	120	4,310	-	463,261	467,691
<b>Total Debt Service</b>	<b>10,260</b>	<b>13,557</b>	<b>-</b>	<b>858,602</b>	<b>882,419</b>
<b>Total Expenditures</b>	<b>\$ 16,880,133</b>	<b>\$ 2,676,761</b>	<b>\$ 24</b>	<b>\$ 6,044,215</b>	<b>\$ 25,601,133</b>

## Workers' Compensation Fund - Basic Plan

### Claims Development Information

Fiscal Years 1995 through 2004 (expressed in millions)

The table below illustrates how the fund's earned revenues (net of reinsurance) and investment income compare to the related costs of losses (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of each of the last ten fiscal years.

#### The rows of the table are defined as follows:

1. This line shows each fiscal year's earned contribution revenues and investment revenues.
2. This line shows the fund's incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
3. This section shows the cumulative amounts paid as of the end of successive years for each policy year.
4. This section shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.
5. This line compares the latest reestimated incurred claims amount to the amount originally established (line 2) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimates is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

#### The columns of the table show data for successive fiscal years.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1. Net earned required contribution and investment revenues	\$ 1,385	\$ 1,274	\$ 1,257	\$ 2,013	\$ 927	\$ 1,057	\$ 1,449	\$ 1,197	\$ 2,111	\$ 1,337
2. Estimated incurred claims and expenses, end of policy year	1,637	1,620	1,681	1,700	1,732	1,902	1,925	2,124	2,284	2,505
3. Paid (cumulative) as of:										
End of policy year	183	192	191	196	205	218	230	226	233	244
One year later	389	396	409	420	438	473	494	500	501	
Two years later	494	502	522	545	564	608	646	653		
Three years later	561	568	596	627	643	706	747			
Four years later	607	617	651	684	707	777				
Five years later	644	658	693	731	758					
Six years later	676	692	731	770						
Seven years later	703	721	763							
Eight years later	728	746								
Nine years later	750									
4. Reestimated incurred claims and expenses:										
End of policy year	1,637	1,620	1,681	1,700	1,732	1,902	1,925	2,124	2,284	2,505
One year later	1,533	1,565	1,602	1,627	1,690	1,838	1,963	2,158	2,277	
Two years later	1,493	1,507	1,553	1,651	1,694	1,913	2,067	2,277		
Three years later	1,459	1,455	1,575	1,643	1,770	1,977	2,226			
Four years later	1,425	1,500	1,576	1,678	1,794	2,088				
Five years later	1,438	1,466	1,601	1,690	1,839					
Six years later	1,413	1,471	1,593	1,687						
Seven years later	1,392	1,456	1,575							
Eight years later	1,389	1,429								
Nine years later	1,323									
5. Increase (decrease) in estimated incurred claims and expenses from end of policy year	(314)	(191)	(106)	(13)	107	186	301	153	(7)	

Source: Washington State Department of Labor and Industries

## Workers' Compensation Fund - Supplemental Pension Plan Claims Development Information

Fiscal Years 1995 through 2004 (expressed in millions)

The table below illustrates how the fund's supplemental pension cost-of-living adjustments earned revenues (net of reinsurance) and investment income compare to the related costs of losses (net of loss assumed by reinsurers) as of the end of the last ten fiscal years. The unallocated and other expenses of this plan are paid by the Workers' Compensation Basic Plan. This claims development information is reported separate from the basic plan for the following reasons:

- (1) This plan covers self-insured, while the basic does not.
- (2) This plan is not experienced rated while the basic plan is.
- (3) Statutes restrict the funding of this plan to expected payments of the current year.

### The rows of the table are defined as follows:

1. This line shows each fiscal year's earned contribution revenues and investment revenues.
2. This line shows the fund's incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
3. This section shows the cumulative amounts paid as of the end of successive years for each policy year.
4. This section shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.
5. This line compares the latest reestimated incurred claims amount to the amount originally established (line 2) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimates is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

### The columns of the table show data for successive fiscal years.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1. Net earned required contribution and investment revenues	\$ 168	\$ 173	\$ 154	\$ 170	\$ 193	\$ 225	\$ 267	\$ 281	\$ 293	\$ 288
2. Estimated incurred claims and expenses, end of policy year	757	751	795	790	548	635	628	807	1,029	1,228
3. Paid (cumulative) as of:										
End of policy year	-	-	-	-	-	-	-	-	-	-
One year later	1	3	4	6	7	8	5	2	5	
Two years later	4	8	11	14	12	12	8	11		
Three years later	6	9	13	17	18	17	22			
Four years later	9	14	20	24	24	30				
Five years later	14	20	27	30	37					
Six years later	19	26	34	41						
Seven years later	25	33	40							
Eight years later	31	37								
Nine years later	41									
4. Reestimated incurred claims and expenses:										
End of policy year	757	751	795	790	548	635	628	807	1,029	1,228
One year later	732	793	812	527	666	730	786	945	1,045	
Two years later	760	792	610	727	754	844	910	1,046		
Three years later	760	633	753	798	860	959	1,064			
Four years later	621	754	817	860	932	1,099				
Five years later	704	773	864	924	1,034					
Six years later	715	790	898	971						
Seven years later	692	810	936							
Eight years later	764	814								
Nine years later	681									
5. Increase (decrease) in estimated incurred claims and expenses from end of policy year	(76)	63	141	181	486	464	436	239	16	

Source: Washington State Department of Labor and Industries



## Workers' Compensation Fund

### Reconciliation of Claims Liabilities by Plan

Fiscal Years 2004 and 2003 (expressed in thousands)

The schedule below presents the changes in claims liabilities for the past two fiscal years for the fund's two benefit plans: Workers' Compensation Basic Plan and Workers' Compensation Supplemental Pension Plan.

	Basic Plan		Supplemental Pension Plan		Grand Total	
	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003
Unpaid claims and claim adjustment expenses at beginning of year	\$ 7,997,273	\$ 7,696,421	\$ 7,866,579	\$ 7,186,678	\$ 15,863,852	\$ 14,883,099
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current year	1,382,174	1,310,069	390,374	326,067	1,772,548	1,636,136
Increase (decrease) in provision for insured events of prior years	228,262	202,887	266,696	650,524	494,958	853,411
Total incurred claims and claim adjustment expenses	1,610,436	1,512,956	657,070	976,591	2,267,506	2,489,547
Payments:						
Claims and claim adjustment expenses attributable:						
To events of the current year	244,334	232,797	-	-	244,334	232,797
To insured events of prior years	1,001,817	979,307	294,109	296,690	1,295,926	1,275,997
Total payments	1,246,151	1,212,104	294,109	296,690	1,540,260	1,508,794
Total unpaid claims and claim adjustment expenses at fiscal year end	\$ 8,361,558	\$ 7,997,273	\$ 8,229,540	\$ 7,866,579	\$ 16,591,098	\$ 15,863,852

Source: Washington State Department of Labor and Industries

## Claims Liability Development by Program

Fiscal Year 2004 (expressed in thousands)

Claim liabilities are discounted and adjusted to present an appropriate settlement or carrying value. The schedule below presents the discounts and adjustments to claim liabilities for the current fiscal year.

Program/Category	Undiscounted Liabilities	Discount Rate	Discounted Liabilities	Provision For Settlement Value Uncertainty (4.0%)	Overpayment Adjustments	Carrying Value
Benefit Reserves:						
Accident	\$ 3,649,382	4.0%	\$ 3,049,961	\$ 121,999	\$ 12,271	\$ 3,184,231
Medical Aid	5,104,240	4.0%	2,597,954	103,918	1,680	2,703,552
Pensions	8,522,895	6.5%	2,094,403	-	1,469	2,095,872
Supplemental Pension (COLA)	18,406,000	4.0%	8,220,000	-	9,540	8,229,540
Sub-Total Benefits	35,682,517		15,962,318	225,917	24,960	16,213,195
Claims Admin Expense (CAE)Reserves	572,390	4.0%	363,368	14,535	-	377,903
Total Benefits and CAE Reserves	\$ 36,254,907		\$ 16,325,686	\$ 240,452	\$ 24,960	\$ 16,591,098

Source: Washington State Department of Labor and Industries

## **STATISTICAL SECTION**



**Table 1 - Revenues, Expenditures, and Other Financing Sources (Uses)**

All Governmental Fund Types

Fiscal Years 1995 through 2004 (dollars in millions)

	2004*	2003*	2002*	2001	2000	1999	1998	1997	1996	1995
<b>Revenues:</b>										
<b>Taxes:</b>										
Retail sales	\$ 5,841.0	\$ 5,605.1	\$ 5,499.6	\$ 5,525.0	\$ 5,432.5	\$ 4,989.0	\$ 4,652.4	\$ 4,436.5	\$ 4,177.6	\$ 4,117.9
Business and occupation	2,078.3	1,940.0	1,934.0	2,018.3	1,829.5	1,850.4	1,862.9	1,787.7	1,703.2	1,562.9
Use (compensating)	393.5	369.3	379.7	409.6	380.0	333.3	330.3	333.0	295.3	283.3
Motor vehicle and fuel	925.7	752.4	742.7	736.1	964.0	717.8	708.2	685.2	676.7	661.9
Liquor, beer, and wine	144.4	134.0	129.3	125.3	119.2	91.0	129.7	117.0	113.2	105.7
Cigarette and tobacco	352.5	362.4	330.7	264.9	277.3	278.5	276.7	277.6	278.3	218.6
Insurance premiums	345.6	316.7	291.3	279.7	261.2	239.0	228.8	212.2	202.7	205.6
Public utility	329.8	309.0	306.5	302.6	282.1	249.0	242.3	234.4	232.4	207.7
Property	1,527.2	1,483.1	1,426.2	1,366.7	1,332.8	1,276.8	1,230.9	1,170.6	1,107.3	1,031.9
Excise	687.3	583.3	501.8	509.4	631.5	1,134.7	1,060.8	921.5	836.4	781.6
Gift and inheritance	139.9	124.4	114.2	106.3	82.6	69.7	82.2	88.5	61.4	42.0
Other (less credits)	335.1	222.8	258.4	263.8	215.3	193.5	193.1	148.5	139.2	226.9
<b>Total Taxes</b>	<b>13,100.3</b>	<b>12,202.6</b>	<b>11,914.4</b>	<b>11,907.7</b>	<b>11,808.1</b>	<b>11,422.7</b>	<b>10,998.3</b>	<b>10,412.7</b>	<b>9,823.7</b>	<b>9,446.0</b>
Licenses, permits, and fees	665.6	650.9	612.3	614.2	596.2	556.0	510.7	492.0	476.1	467.5
Federal grants-in-aid	7,701.6	6,973.9	6,574.3	5,757.5	5,303.9	4,763.0	4,623.5	4,576.9	4,382.0	4,033.2
Charges and miscellaneous revenue	3,184.2	2,936.6	2,769.4	2,146.0	2,015.4	1,724.6	1,683.1	1,646.5	1,489.9	1,411.6
Interest income	294.4	251.9	189.2	228.1	202.3	203.3	192.7	175.2	167.3	153.5
<b>Total Revenues</b>	<b>24,946.0</b>	<b>23,015.9</b>	<b>22,059.6</b>	<b>20,653.6</b>	<b>19,925.9</b>	<b>18,669.7</b>	<b>18,008.3</b>	<b>17,303.3</b>	<b>16,339.0</b>	<b>15,511.8</b>
<b>Expenditures:</b>										
<b>Current:</b>										
General government	860.3	860.2	870.1	881.4	706.7	720.4	739.2	1,122.2	987.2	977.5
Human services	9,962.4	9,930.6	9,339.1	8,379.4	7,708.6	7,045.0	6,827.7	6,526.4	6,145.5	5,570.6
Natural resources and recreation	643.0	643.0	640.0	637.2	552.3	553.0	529.4	522.8	498.1	541.6
Transportation	1,297.0	1,297.0	1,283.1	1,093.7	872.8	873.2	787.0	931.4	859.3	910.4
Education	10,084.8	10,084.8	9,001.8	8,469.8	7,962.1	7,609.7	7,246.3	7,071.9	6,707.2	6,439.6
Intergovernmental	329.5	329.5	349.6	321.1	645.9	441.8	424.4	N/A	N/A	N/A
Capital outlays	1,541.7	1,541.4	1,205.6	1,192.5	1,188.8	1,179.2	991.3	1,112.2	969.3	1,276.4
Debt service	882.4	870.4	830.5	794.7	745.8	701.2	674.2	618.7	604.5	568.8
<b>Total Expenditures</b>	<b>25,601.1</b>	<b>25,556.9</b>	<b>23,519.8</b>	<b>21,769.8</b>	<b>20,383.0</b>	<b>19,123.5</b>	<b>18,219.5</b>	<b>17,905.6</b>	<b>16,771.1</b>	<b>16,284.9</b>
<b>Revenues Over (Under) Expenditures</b>	<b>(655.1)</b>	<b>(2,541.0)</b>	<b>(1,460.2)</b>	<b>(1,116.2)</b>	<b>(457.1)</b>	<b>(453.8)</b>	<b>(211.2)</b>	<b>(602.3)</b>	<b>(432.1)</b>	<b>(773.1)</b>
<b>Other Financing Sources (Uses):</b>										
Bonds issued net of refunding	1,214.2	1,214.2	937.8	820.5	581.1	519.8	739.8	638.9	454.0	603.5
Notes issued	18.1	18.1	9.9	23.3	25.9	12.9	15.6	7.8	4.9	4.9
Net transfers in (out)	236.3	230.7	144.7	379.7	197.5	154.6	141.8	133.4	157.9	167.3
Capital lease acquisitions	-	-	-	10.3	-	-	1.5	0.2	-	19.0
<b>Net Other Financing Sources (Uses)</b>	<b>1,468.6</b>	<b>1,463.1</b>	<b>1,092.4</b>	<b>1,233.7</b>	<b>804.4</b>	<b>687.3</b>	<b>898.7</b>	<b>780.3</b>	<b>616.8</b>	<b>794.7</b>
<b>Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>\$ 813.5</b>	<b>\$ (1,078.0)</b>	<b>\$ (367.8)</b>	<b>\$ 117.5</b>	<b>\$ 347.3</b>	<b>\$ 233.5</b>	<b>\$ 687.5</b>	<b>\$ 178.0</b>	<b>\$ 184.7</b>	<b>\$ 21.6</b>

\*Certain fund type reclassifications occurred in Fiscal Years 2002, 2003 and 2004.

Source: State of Washington Comprehensive Annual Financial Reporting System, GAAP Basis.

**Table 2 - Revenues, Expenditures, and Other Financing Sources (Uses)**

**General Fund**

Fiscal Years 1995 through 2004 (dollars in millions)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
<b>Revenues:</b>										
<b>Taxes:</b>										
Retail sales	\$ 5,785.8	\$ 5,578.8	\$ 5,464.2	\$ 5,502.4	\$ 5,419.5	\$ 4,988.4	\$ 4,651.1	\$ 4,435.4	\$ 4,169.1	\$ 4,110.3
Business and occupation	2,018.7	1,893.0	1,889.3	2,031.2	1,838.3	1,846.5	1,867.7	1,750.0	1,670.4	1,546.1
Use (compensating)	388.2	369.3	379.0	410.3	380.8	334.0	331.4	333.0	295.3	283.3
Liquor, beer, and wine	100.2	93.3	90.2	87.7	83.7	79.8	77.2	74.6	72.5	73.2
Cigarette and tobacco	62.2	63.2	76.7	97.6	102.0	86.6	84.5	86.3	80.3	92.3
Insurance premiums	217.6	202.9	182.5	177.8	173.4	158.3	153.9	141.3	172.3	203.3
Public utility	318.2	298.2	296.3	302.6	282.1	249.0	242.3	234.4	232.4	207.7
Property	1,393.0	1,349.2	1,293.1	1,366.7	1,332.8	1,276.8	1,230.9	1,170.6	1,107.3	1,031.9
Excise	623.0	514.6	431.1	476.5	552.7	815.8	815.4	695.3	627.0	610.8
Gift and inheritance	139.9	124.4	114.2	106.3	82.6	69.7	82.2	88.5	61.4	42.0
Other (less credits)	178.4	122.9	125.6	116.3	91.9	114.0	87.9	82.9	73.9	156.2
<b>Total Taxes</b>	<b>11,225.1</b>	<b>10,609.7</b>	<b>10,342.2</b>	<b>10,675.4</b>	<b>10,339.7</b>	<b>10,019.0</b>	<b>9,624.5</b>	<b>9,092.3</b>	<b>8,561.9</b>	<b>8,357.1</b>
Licenses, permits, and fees	75.5	74.9	75.5	123.9	131.2	122.4	101.5	95.1	88.3	91.0
Federal grants-in-aid	5,916.8	5,353.9	5,130.9	4,633.6	4,304.6	3,864.0	3,794.5	3,595.8	3,438.4	3,014.1
Charges and miscellaneous revenue	387.8	424.5	337.8	500.7	487.2	451.5	473.1	443.6	382.3	417.0
Interest income	4.8	35.5	19.6	111.4	106.6	99.1	90.1	82.9	76.3	80.2
<b>Total Revenues</b>	<b>17,609.9</b>	<b>16,498.5</b>	<b>15,906.0</b>	<b>16,045.0</b>	<b>15,369.3</b>	<b>14,556.0</b>	<b>14,083.7</b>	<b>13,309.7</b>	<b>12,547.2</b>	<b>11,959.4</b>
<b>Expenditures:</b>										
<b>Current:</b>										
General government	514.6	495.6	526.6	673.7	551.0	569.3	610.6	736.8	639.9	620.1
Human services	8,988.7	8,538.4	8,303.8	7,653.1	7,055.2	6,502.7	6,338.9	5,999.8	5,786.1	5,309.0
Natural resources and recreation	268.1	270.5	262.9	368.4	296.6	299.3	274.4	279.3	250.8	268.7
Transportation	27.0	16.0	28.6	48.3	45.5	41.3	26.5	24.5	24.1	30.7
Education	6,977.4	6,910.8	6,777.8	6,608.2	6,241.0	5,982.8	5,755.4	5,557.1	5,338.0	5,167.0
<b>Intergovernmental</b>	<b>26.7</b>	<b>26.8</b>	<b>23.1</b>	<b>57.1</b>	<b>172.4</b>	<b>185.7</b>	<b>179.6</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Capital outlays</b>	<b>67.4</b>	<b>65.1</b>	<b>57.5</b>	<b>95.4</b>	<b>71.5</b>	<b>85.1</b>	<b>72.2</b>	<b>72.0</b>	<b>77.7</b>	<b>185.3</b>
<b>Debt service</b>	<b>10.2</b>	<b>16.0</b>	<b>12.2</b>	<b>18.5</b>	<b>19.7</b>	<b>18.5</b>	<b>25.9</b>	<b>13.2</b>	<b>19.4</b>	<b>18.7</b>
<b>Total Expenditures</b>	<b>16,880.1</b>	<b>16,339.2</b>	<b>15,992.5</b>	<b>15,522.7</b>	<b>14,452.9</b>	<b>13,684.7</b>	<b>13,283.5</b>	<b>12,682.7</b>	<b>12,136.0</b>	<b>11,599.5</b>
<b>Revenues Over (Under) Expenditures</b>	<b>729.8</b>	<b>159.3</b>	<b>(86.5)</b>	<b>522.3</b>	<b>916.4</b>	<b>871.3</b>	<b>800.2</b>	<b>627.0</b>	<b>411.2</b>	<b>359.9</b>
<b>Other Financing Sources (Uses):</b>										
Notes issued	5.0	11.4	7.0	5.7	4.0	3.5	2.0	3.3	1.1	2.8
Net transfers in (out)	(586.9)	(140.0)	(64.5)	(612.0)	(658.6)	(588.8)	(436.1)	(519.1)	(307.2)	(337.3)
Capital lease acquisitions	-	-	-	-	-	-	-	-	-	17.5
<b>Net Other Financing Sources (Uses)</b>	<b>(581.9)</b>	<b>(128.6)</b>	<b>(57.5)</b>	<b>(606.2)</b>	<b>(654.5)</b>	<b>(585.3)</b>	<b>(434.1)</b>	<b>(515.8)</b>	<b>(306.1)</b>	<b>(317.0)</b>
<b>Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>\$ 147.9</b>	<b>\$ 30.7</b>	<b>\$ (144.0)</b>	<b>\$ (83.9)</b>	<b>\$ 261.9</b>	<b>\$ 286.0</b>	<b>\$ 366.1</b>	<b>\$ 111.2</b>	<b>\$ 105.1</b>	<b>\$ 42.9</b>

Source: State of Washington Comprehensive Annual Financial Reporting System, GAAP Basis.

### Table 3A - Property Tax Levies and Collections

Calendar Years 1994 through 2003 (dollars in millions)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Total Property Tax Levies	\$ 6,254	\$ 5,978	\$ 5,711	\$ 5,412	\$ 5,083	\$ 4,723	\$ 4,571	\$ 4,293	\$ 4,010	\$ 3,719
Current tax collections	\$ 6,124	\$ 5,734	\$ 5,521	\$ 5,204	\$ 4,891	\$ 4,546	\$ 4,407	\$ 4,129	\$ 3,856	\$ 3,578
Delinquent tax collections	195	166	158	149	136	131	118	118	105	112
Total Tax Collections	\$ 6,319	\$ 5,900	\$ 5,679	\$ 5,353	\$ 5,027	\$ 4,677	\$ 4,525	\$ 4,247	\$ 3,961	\$ 3,690
Outstanding delinquent taxes	\$ 122	\$ 108	\$ 95	\$ 89	\$ 86	\$ 79	\$ 77	\$ 75	\$ 70	\$ 71
Percent of current taxes collected	97.9%	95.9%	96.7%	96.2%	96.2%	96.3%	96.4%	96.2%	96.2%	96.2%
Ratio of total tax collections to tax levy	101.0%	98.7%	99.4%	98.9%	98.9%	99.0%	99.0%	98.9%	98.8%	99.2%
Ratio of delinquent taxes to total tax levy	2.0%	1.8%	1.7%	1.6%	1.7%	1.7%	1.7%	1.7%	1.7%	1.9%

Source: Tax Statistics, Washington State Department of Revenue.

### Table 3B - Assessed and Estimated Actual Value of Property

Calendar Years 1994 through 2003 (dollars in millions)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Real Property										
Assessed value	\$ 502,936	\$ 473,121	\$ 444,313	\$ 410,088	\$ 375,084	\$ 350,203	\$ 324,134	\$ 303,221	\$ 288,297	\$ 273,688
Estimated actual value	551,909	527,978	496,391	459,908	422,543	390,079	359,568	336,838	329,199	305,605
Personal Property										
Assessed value	32,272	33,717	34,374	31,103	29,573	28,384	27,774	27,222	25,285	24,074
Estimated actual value	33,746	35,623	35,905	32,773	30,419	29,346	29,879	28,389	26,271	24,884
Total										
Assessed value	\$ 535,208	\$ 506,838	\$ 478,687	\$ 441,191	\$ 404,657	\$ 378,587	\$ 351,908	\$ 330,443	\$ 313,582	\$ 297,762
Estimated actual value	585,655	563,601	532,296	492,681	452,962	419,425	389,447	365,227	355,470	330,489
Ratio of total assessed value to total estimated actual value	91.4%	89.9%	89.9%	89.5%	89.3%	90.3%	90.4%	90.5%	88.2%	90.1%

Source: Tax Statistics, Washington State Department of Revenue.

### Table 3C - Property Tax Levies Overlapping Governments

Calendar Years 1994 through 2003 (dollars in millions)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
State	\$ 1,485	\$ 1,445	\$ 1,397	\$ 1,326	\$ 1,278	\$ 1,238	\$ 1,189	\$ 1,099	\$ 1,066	\$ 981
Local school districts	2,004	1,896	1,802	1,727	1,604	1,458	1,415	1,333	1,187	1,115
Counties	1,094	1,066	1,020	972	924	872	849	820	789	731
Cities and towns	861	829	798	734	666	632	589	549	503	470
Other districts	810	742	694	653	611	523	529	492	465	422
Total Property Tax Levies	\$ 6,254	\$ 5,978	\$ 5,711	\$ 5,412	\$ 5,083	\$ 4,723	\$ 4,571	\$ 4,293	\$ 4,010	\$ 3,719

Source: Tax Statistics, Washington State Department of Revenue.

## Table 4A - Property Value and Construction

Calendar Years 1994 through 2003 (dollars in millions)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
<b>Property Value:</b>										
Assessed value	\$ 535,208	\$ 506,838	\$ 478,687	\$ 441,192	\$ 404,657	\$ 378,587	\$ 378,587	\$ 330,443	\$ 313,582	\$ 297,762
<b>Exemptions:</b>										
Senior citizen	\$ 3,362	\$ 3,327	\$ 4,066	\$ 4,187	\$ 4,609	\$ 4,796	\$ 2,883	\$ 2,999	\$ 3,037	\$ 2,980
Head of household	56	56	53	47	43	47	44	54	50	49
<b>Total Exemptions</b>	<b>\$ 3,418</b>	<b>\$ 3,383</b>	<b>\$ 4,119</b>	<b>\$ 4,234</b>	<b>\$ 4,652</b>	<b>\$ 4,843</b>	<b>\$ 2,927</b>	<b>\$ 3,053</b>	<b>\$ 3,087</b>	<b>\$ 3,029</b>
<b>New Construction:</b>										
Value	\$ 11,356	\$ 10,724	\$ 10,896	\$ 10,527	\$ 9,542	\$ 9,195	\$ 8,497	\$ 6,818	\$ 7,794	\$ 7,269

Source: Tax Statistics, Washington State Department of Revenue.

## Table 4B - Residential Building Activity

Calendar Years 1994 through 2003 (dollars in millions)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Permits	42,825	40,200	38,345	39,021	42,752	45,727	41,089	39,597	38,445	44,854
Valuations	\$ 6,346	\$ 5,473	\$ 4,689	\$ 4,426	\$ 4,578	\$ 4,745	\$ 4,225	\$ 3,773	\$ 3,578	\$ 4,227

Source: U.S. Department of Commerce, Bureau of the Census.

## Table 4C - Accrued State Retail Sales Tax\*

Calendar Years 1994 through 2003 (dollars in millions)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Sales Subject to Retail Sales Tax:										
Gross	\$132,285	\$126,515	\$127,819	\$128,778	\$118,527	\$110,400	\$102,800	\$ 95,648	\$ 90,107	\$ 86,436
Taxable	87,659	85,361	84,899	85,339	80,228	74,577	69,975	64,301	62,315	60,586
Accrued State Retail Sales Tax*	5,698	5,549	5,518	5,547	5,215	4,847	4,548	4,179	4,054	3,939

\*State tax only, excludes accrued local sales tax revenues.

Source: Quarterly Business Review, Washington State Department of Revenue.

**Table 5A - Ratio of Net General and Limited Obligation Bonded Debt to Assessed Value & Net General and Limited Obligation Bonded Debt Per Capita**

Fiscal Years 1994 through 2003

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Population (in thousands) (1)	6,098	6,042	5,975	5,894	5,831	5,750	5,664	5,568	5,470	5,364
Assessed Value (in millions) (2)	\$ 535,208	\$ 506,838	\$ 478,687	\$ 441,191	\$ 404,657	\$ 378,587	\$ 351,908	\$ 330,443	\$ 313,582	\$ 297,762
Net Bonded Debt (in millions) (3):										
Gross Bonded Debt	\$ 9,378	\$ 8,512	\$ 7,679	\$ 7,278	\$ 6,884	\$ 6,608	\$ 6,192	\$ 5,831	\$ 5,650	\$ 5,310
Less:										
Debt Service Funds	100	102	83	211	88	88	80	82	80	97
<b>Net Bonded Debt</b>	<b>\$ 9,278</b>	<b>\$ 8,410</b>	<b>\$ 7,596</b>	<b>\$ 7,067</b>	<b>\$ 6,796</b>	<b>\$ 6,520</b>	<b>\$ 6,112</b>	<b>\$ 5,749</b>	<b>\$ 5,570</b>	<b>\$ 5,213</b>
Ratio of Net Bonded Debt to Assessed Value	1.73%	1.66%	1.59%	1.60%	1.68%	1.72%	1.74%	1.74%	1.78%	1.75%
Net Bonded Debt Per Capita	\$ 1,521	\$ 1,392	\$ 1,271	\$ 1,199	\$ 1,165	\$ 1,134	\$ 1,079	\$ 1,033	\$ 1,018	\$ 972

Sources: (1) Washington State Economic and Revenue Forecast Council.  
(2) Tax Statistics, Washington State Department of Revenue.  
(3) Washington Office of the State Treasurer.

**Table 5B - Selected Financial Ratios**

Calendar Years 1994 through 2003

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
State bonded debt per capita (in millions)	\$ 1,461	\$ 1,390	\$ 1,287	\$ 1,248	\$ 1,184	\$ 1,130	\$ 1,138	\$ 1,075	\$ 1,043	\$ 1,028
State bonded debt as a percentage of personal income	4.37%	4.24%	4.01%	3.99%	3.92%	4.07%	4.29%	4.29%	4.42%	4.53%
Total debt service as a percentage of personal income	0.40%	0.40%	0.44%	0.40%	0.39%	0.43%	0.43%	0.46%	0.47%	0.45%
State bonded debt as a percentage of market value of taxable property	1.52%	1.49%	1.44%	1.49%	1.52%	1.55%	1.66%	1.64%	1.61%	1.67%
Factors:										
Population (in thousands) (1)	6,098	6,042	5,975	5,894	5,831	5,750	5,664	5,568	5,470	5,364
Personal income (in millions) (1)	\$ 204,000	\$ 198,200	\$ 191,800	\$ 184,300	\$ 176,200	\$ 159,674	\$ 150,368	\$ 139,516	\$ 129,117	\$ 121,606
Total debt service (in millions) (2)	\$ 811	\$ 786	\$ 852	\$ 743	\$ 690	\$ 693	\$ 643	\$ 635	\$ 607	\$ 546
Market value of taxable property (in millions) (3)	\$ 585,655	\$ 563,601	\$ 532,296	\$ 492,681	\$ 452,962	\$ 419,425	\$ 389,447	\$ 365,227	\$ 355,470	\$ 330,489
State bond debt (in millions) (2)	\$ 8,909	\$ 8,397	\$ 7,687	\$ 7,355	\$ 6,903	\$ 6,497	\$ 6,446	\$ 5,988	\$ 5,706	\$ 5,512

Sources: (1) Washington State Economic and Revenue Forecast Council.  
(2) Washington Office of the State Treasurer.  
(3) Tax Statistics, Washington State Department of Revenue.



## Table 6A - Ratio of Annual Debt Service to Expenditures

### All Governmental Fund Types

Fiscal Years 1995 through 2004 (dollars in millions)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Principal	\$ 414.7	\$ 441.0	\$ 428.9	\$ 399.9	\$ 388.2	\$ 351.1	\$ 336.0	\$ 300.0	\$ 304.6	\$ 274.3
Interest	467.7	417.6	401.6	394.9	359.1	350.1	338.2	318.7	299.9	294.6
<b>Total Debt Service</b>	<b>\$ 882.4</b>	<b>\$ 858.6</b>	<b>\$ 830.5</b>	<b>\$ 794.8</b>	<b>\$ 747.3</b>	<b>\$ 701.2</b>	<b>\$ 674.2</b>	<b>\$ 618.7</b>	<b>\$ 604.5</b>	<b>\$ 568.9</b>
Total Governmental Funds' Expenditures	\$ 25,601.1	\$ 24,553.5	\$ 23,519.8	\$ 21,769.8	\$ 20,383.0	\$ 19,123.5	\$ 18,219.5	\$ 17,905.6	\$ 16,771.1	\$ 16,284.9
Ratio of Debt Service to Governmental Funds' Expenditures	3.4	3.5	3.5	3.7	3.7	3.7	3.7	3.5	3.6	3.5

Source: Washington State Office of Financial Management - Accounting Division.

## Table 6B - Revenue Bond Coverage

Fiscal Years 1995 through 2004 (dollars in millions)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Gross Revenues (1)	\$ 1,068	\$ 1,015	\$ 912	\$ 838	\$ 775	\$ 758	\$ 712	\$ 636	\$ 676	\$ 631
Operating Expenses (2)	971	917	854	806	716	674	603	548	591	528
<b>Net Revenue Available for Debt Service</b>	<b>\$ 97</b>	<b>\$ 98</b>	<b>\$ 58</b>	<b>\$ 32</b>	<b>\$ 59</b>	<b>\$ 84</b>	<b>\$ 109</b>	<b>\$ 88</b>	<b>\$ 85</b>	<b>\$ 103</b>
Debt Service Requirements:										
Principal	\$ 10	\$ 8	\$ 8	\$ 6	\$ 5	\$ 6	\$ 6	\$ 6	\$ 6	\$ 5
Interest	50	17	12	12	10	8	8	8	9	10
<b>Total Debt Service Requirements</b>	<b>\$ 60</b>	<b>\$ 25</b>	<b>\$ 20</b>	<b>\$ 18</b>	<b>\$ 15</b>	<b>\$ 14</b>	<b>\$ 14</b>	<b>\$ 14</b>	<b>\$ 15</b>	<b>\$ 15</b>
Coverage Ratio	1.62	3.92	2.90	1.78	3.93	6.00	7.79	6.29	5.67	6.87

(1) Total revenues (including earnings on investments).

(2) Total operating expenses exclusive of depreciation.

Source: Washington State Office of Financial Management - Accounting Division.

## Table 7A - Total Resident Population and Components of Change

Calendar Years 1995 through 2004 (figures in thousands)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Population	6,167.8	6,098.3	6,041.7	5,974.9	5,894.1	5,830.8	5,750.0	5,663.8	5,567.8	5,470.1
Population change:										
Number	69.5	56.6	66.8	80.8	63.3	80.8	86.3	96.0	97.7	105.8
Percent	1.1	0.9	1.1	1.4	1.1	1.4	1.5	1.7	1.8	2.0
Births number	80.9	78.9	79.3	80.7	79.9	79.8	78.8	78.0	77.0	77.5
Deaths number	46.5	45.4	44.9	43.9	43.7	43.1	41.6	42.6	41.2	40.0
Net migration number	35.1	23.1	32.4	44.0	27.2	44.2	49.0	60.6	61.8	68.3

Notes: Births, deaths, and migration year figures are April through March.

Population figures are as of April 1 of each year.

Birth and death figures are estimated for the years 2003 and 2004.

Source: Washington State Office of Financial Management - November 2004 forecast.

## Table 7B - Employment Comparison

### Washington vs. United States

Calendar Years 1994 through 2003 (figures in thousands)

Total Civilian	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Labor Force:										
Washington State	3,140	3,109	3,024	3,056	3,094	3,056	2,999	2,887	2,817	2,716
Percent change	1.0	2.8	(1.0)	(1.2)	1.3	1.9	3.9	2.5	3.7	0.4
United States	146,500	145,100	143,900	142,600	141,000	139,100	137,600	134,900	133,100	131,700
Percent change	1.0	0.8	0.9	1.1	1.4	1.1	2.0	1.4	1.1	1.6
Employment:										
Washington State	2,903	2,883	2,831	2,896	2,948	2,910	2,856	2,699	2,638	2,542
Percent change	0.7	1.8	(2.3)	(1.8)	1.3	1.9	5.8	2.3	3.8	1.7
United States	137,700	136,700	137,100	136,900	135,100	132,800	130,800	127,600	125,700	123,600
Percent change	0.7	(0.2)	0.1	1.4	1.7	1.6	2.5	1.6	1.6	2.5

Source: Washington State Economic and Revenue Forecast Council - November 2004 forecast.

**Table 8A - Washington's Twenty-Five Largest Public Companies**  
(Ranked by 2002 Revenues)

Ranking	Company	Description of company	Revenues (in millions)
1	Costco Wholesale Corp.	Worldwide wholesale club operator	\$ 38,762.5
2	Microsoft Corp.	Software development	32,187.0
3	Washington Mutual Inc.	National financial services	19,037.0
4	Weyerhaeuser Co.	Natural resource and forest products	18,521.0
5	AT&T Wireless Services Inc.	Digital wireless networking	15,631.0
6	Paccar Inc.	Heavy-duty truck manufacturing and financial services	7,218.6
7	Safeco Corp.	Financial services and insurance	7,065.1
8	Nordstrom Inc.	Apparel retailer	5,975.1
9	Amazon.com Inc.	Online retailer	3,932.9
10	Airborne Inc.	Air courier services	3,343.7
11	Starbucks Corp.	Coffee roaster and retailer	3,288.9
12	Puget Energy Inc.	Supplies utilities to Washington State	2,392.3
13	Expeditors International of Washington Inc.	International logistics company	2,296.9
14	Alaska Air Group Inc.	Holding company for Alaska and Horizon airlines	2,224.1
15	Potlatch Corp.	Paper and paper products	1,286.2
16	Western Wireless Corp.	Wireless telecommunications	1,186.6
17	Plum Creek Timber Co. Inc.	Natural resource and forest products	1,137.0
18	Avista Corp.	Holding company for utilities	980.4
19	Labor Ready Inc.	Temporary employment services	862.7
20	Longview Fibre Co.	Natural resource and forest products	769.3
21	Nextel Partners Inc.	Provides digital wireless communications service in mid-sized and smaller markets in the United States	670.7
22	Expedia Inc.	Operates online travel and vacation site	590.6
23	The Nautilus Group Inc.	Direct marketer of fitness equipment	584.7
24	Washington Federal Savings	Specializing in real estate loans	515.5
25	Consolidated Freightways Corp.	Long-distance, less-than-truckload carrier	482.4

Source: Puget Sound Business Journal 2004 Book of Lists

**Table 8B - Fortune 500 Companies Headquartered in Washington**

Ranking 2003	Ranking 2002	Company	Revenues (in millions)	Profits (in millions)	Employees Worldwide	Headquarters/ Location
29	33	Costco Wholesale Corp.	\$ 42,545.6	\$ 721	82,400	Issaquah
46	47	Microsoft Corp.	32,187.0	9,993	55,000	Redmond
95	96	Weyerhaeuser Co.	19,873.0	277	55,162	Federal Way
103	94	Washington Mutual Inc.	18,629.0	3,880	60,021	Seattle
120	119	AT&T Wireless Services Inc.	16,695.0	442	31,000	Redmond
250	257	Paccar Inc.	8,194.9	527	17,000	Bellevue
267	260	Safeco Corp.	7,358.1	339	11,200	Seattle
286	293	Nordstrom Inc.	6,491.7	243	44,000	Seattle
342	407	Amazon.com Inc.	5,263.7	35	7,800	Seattle
425	465	Starbucks Corp.	4,075.5	268	74,000	Seattle

Source: Fortune, April 5, 2004

## Table 9A - Labor Force and Employment by Sector

Calendar Years 1994 through 2003 (figures in thousands)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
<b>Resident Civilian Labor Force and Employment in Washington State (1)</b>										
Civilian labor force	3,139.9	3,109.5	3,024.2	3,055.8	3,094.3	3,055.7	2,998.9	2,887.0	2,817.2	2,716.1
Unemployment	237.0	226.8	193.5	159.4	146.3	145.4	142.8	187.6	179.4	174.3
<b>Total Employment</b>	<b>2,902.9</b>	<b>2,882.6</b>	<b>2,830.7</b>	<b>2,896.4</b>	<b>2,948.0</b>	<b>2,910.2</b>	<b>2,856.0</b>	<b>2,699.4</b>	<b>2,637.8</b>	<b>2,541.8</b>
<b>Unemployment percentage rate</b>	<b>7.5%</b>	<b>7.3%</b>	<b>6.4%</b>	<b>5.2%</b>	<b>4.7%</b>	<b>4.8%</b>	<b>4.8%</b>	<b>6.5%</b>	<b>6.4%</b>	<b>6.4%</b>
<b>Nonagricultural Wage and Salary Workers Employed in Washington State</b>										
<b>Manufacturing:</b>										
Food	34.7	35.3	37.2	38.9	38.6	38.3	39.1	40.1	39.9	38.4
Wood products	17.9	18.0	18.9	21.9	21.2	21.9	22.9	22.7	22.5	22.5
Paper and paper products	12.9	13.3	14.1	14.4	15.2	15.6	15.6	15.6	15.7	15.4
Primary and fabricated metals	22.1	23.5	27.0	29.8	30.0	31.4	30.7	29.4	28.0	26.2
Computer and electronic equipment	23.4	26.2	32.4	34.4	33.3	35.0	33.5	30.1	27.6	26.0
Machinery and electrical equipment	16.2	16.7	18.6	19.8	19.2	18.3	17.8	16.5	15.5	14.0
Aerospace	65.4	75.7	87.3	86.2	98.3	112.0	105.1	86.4	80.2	90.7
Other manufacturing	74.0	76.4	80.7	86.6	87.7	88.0	85.7	84.2	82.0	78.5
<b>Total Manufacturing</b>	<b>266.7</b>	<b>285.0</b>	<b>316.2</b>	<b>331.9</b>	<b>343.4</b>	<b>360.6</b>	<b>350.4</b>	<b>325.0</b>	<b>311.4</b>	<b>311.7</b>
<b>Nonmanufacturing:</b>										
Natural resources	8.8	9.4	9.8	10.0	10.6	10.3	10.8	10.5	10.4	10.1
Construction	156.1	154.2	158.8	160.6	153.8	143.4	137.3	127.4	122.5	122.6
Transportation, warehousing and utilities	87.8	88.3	92.4	95.4	94.3	93.5	90.1	89.4	87.6	85.5
Trade	422.4	421.0	431.5	436.5	424.8	412.5	400.7	390.8	380.8	368.7
Information	91.8	93.6	99.0	97.6	85.2	77.2	72.4	68.3	64.2	58.9
Financial activities	152.4	146.2	145.2	142.3	142.8	136.3	128.5	124.9	121.7	123.6
Services	951.2	940.2	939.1	953.8	919.4	895.2	866.0	828.5	803.9	785.9
State and local government	450.5	447.0	437.5	413.5	406.8	398.7	390.2	382.0	374.3	365.7
Federal civilian government	70.2	69.2	67.9	69.9	67.6	67.2	67.9	68.6	70.1	71.5
<b>Total Nonmanufacturing</b>	<b>2,391.3</b>	<b>2,369.0</b>	<b>2,381.2</b>	<b>2,379.7</b>	<b>2,305.3</b>	<b>2,234.3</b>	<b>2,163.8</b>	<b>2,090.5</b>	<b>2,035.5</b>	<b>1,992.5</b>
<b>Total Wage and Salary Workers</b>	<b>2,658.0</b>	<b>2,654.0</b>	<b>2,697.4</b>	<b>2,711.6</b>	<b>2,648.7</b>	<b>2,594.8</b>	<b>2,514.1</b>	<b>2,415.5</b>	<b>2,346.9</b>	<b>2,304.1</b>

Notes: (1) Average of monthly data.

Source: Washington State Economic and Revenue Forecast Council - November 2004 forecast.

## Table 9B - Average Annual Wage Rates

Calendar Years 1994 through 2003

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Mining	\$ 50,746	\$ 48,388	\$ 48,525	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Construction	41,994	41,974	41,008	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Manufacturing	50,984	51,431	48,206	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Transportation, warehousing and utilities	42,824	42,159	40,884	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Retail trade	27,470	26,915	25,896	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Wholesale trade	50,763	49,517	48,679	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Information	101,977	102,182	110,659	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Financial activities	51,519	48,105	46,715	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Services	35,198	34,037	32,901	N/A	N/A	N/A	N/A	N/A	N/A	N/A
State and local government	36,599	35,559	34,191	33,875	32,372	31,291	30,252	29,531	28,620	27,743
Federal civilian government	52,669	49,327	47,270	44,716	42,754	42,336	41,202	39,802	37,585	36,052

Note: Employment and wages are reported on by North American Industry Code (NAIC). Wages are not available before 2001 on a NAIC basis for most industry sectors.

Source: Washington State Economic and Revenue Forecast Council - November 2004 forecast.

## Table 10A - Personal Income Comparison

### Washington vs. United States

Calendar Years 1994 through 2003 (dollars in billions)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
<b>In Current Dollars:</b>										
Washington										
Amount	\$ 204.0	\$ 198.4	\$ 194.4	\$ 187.9	\$ 175.5	\$ 163.8	\$ 150.1	\$ 139.7	\$ 129.8	\$ 123.3
Percent change	2.8	2.0	3.5	7.0	7.2	9.1	7.5	7.6	5.3	5.1
United States										
Amount	\$ 9,161.8	\$ 8,878.9	\$ 8,724.1	\$ 8,429.7	\$ 7,802.4	\$ 7,423.0	\$ 6,915.1	\$ 6,520.6	\$ 6,152.3	\$ 5,842.5
Percent change	3.2	1.8	3.5	8.0	5.1	7.3	6.1	6.0	5.3	5.1
<b>In 2000 Constant Dollars:</b>										
Washington										
Amount	\$ 193.3	\$ 191.6	\$ 190.4	\$ 187.9	\$ 179.8	\$ 170.6	\$ 157.8	\$ 149.3	\$ 141.8	\$ 137.5
Percent change	0.9	0.6	1.4	4.5	5.4	8.1	5.7	5.3	3.1	3.0
United States										
Amount	\$ 8,683.0	\$ 8,574.8	\$ 8,545.2	\$ 8,429.3	\$ 7,995.9	\$ 7,733.7	\$ 7,269.3	\$ 6,969.9	\$ 6,718.0	\$ 6,516.2
Percent change	1.3	0.3	1.4	5.4	3.4	6.4	4.3	3.8	3.1	2.9

Source: Washington State Economic and Revenue Forecast Council - November 2004 forecast.

## Table 10B - Personal Income by Component

Calendar Years 1994 through 2003 (dollars in billions)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Total personal income	\$ 204.0	\$ 198.4	\$ 194.4	\$ 187.9	\$ 175.5	\$ 163.8	\$ 150.1	\$ 139.7	\$ 129.8	\$ 123.3
Percent change	2.8	2.0	3.5	7.0	7.2	9.1	7.5	7.6	5.3	5.1
Total earnings	\$ 159.3	\$ 153.7	\$ 150.2	\$ 147.0	\$ 138.2	\$ 126.7	\$ 115.1	\$ 106.7	\$ 99.8	\$ 95.5
Percent change	3.7	2.3	2.1	6.4	9.0	10.1	7.8	7.0	4.5	3.9
Wages and salaries	\$ 114.2	\$ 111.4	\$ 110.6	\$ 110.0	\$ 103.8	\$ 94.2	\$ 85.2	\$ 77.2	\$ 71.6	\$ 67.5
Percent change	2.6	0.7	0.6	6.0	10.2	10.6	10.3	7.9	6.0	4.9
Other labor income	\$ 27.1	\$ 25.3	\$ 23.4	\$ 22.9	\$ 21.3	\$ 20.1	\$ 18.5	\$ 17.8	\$ 17.3	\$ 16.8
Percent change	7.3	8.4	2.1	7.5	5.6	9.0	4.0	2.8	3.1	3.8
Farm proprietor's income	\$ 0.1	\$ 0.4	\$ 0.2	\$ 0.4	\$ 0.4	\$ 0.7	\$ 0.7	\$ 1.0	\$ 0.7	\$ 0.7
Percent change	(62.7)	49.5	(46.3)	24.4	(51.1)	8.4	(34.7)	51.9	(7.2)	(35.2)
Nonfarm proprietor's income	\$ 17.8	\$ 16.6	\$ 15.9	\$ 13.7	\$ 12.8	\$ 11.6	\$ 10.7	\$ 10.7	\$ 10.2	\$ 10.5
Percent change	7.1	4.3	16.4	7.2	9.8	8.7	0.2	4.7	(2.4)	2.6
Less: Personal contributions for social insurance	\$ 18.9	\$ 18.3	\$ 17.9	\$ 18.2	\$ 17.0	\$ 16.1	\$ 14.6	\$ 13.8	\$ 13.2	\$ 12.6
Percent change	3.7	1.9	(1.4)	7.3	5.5	10.1	5.5	4.5	4.7	5.6
Plus: Residence adjustment	\$ 2.3	\$ 2.3	\$ 2.3	\$ 2.2	\$ 1.9	\$ 1.8	\$ 1.7	\$ 1.6	\$ 1.4	\$ 1.2
Percent change	2.7	(1.7)	6.7	12.5	6.1	6.2	9.6	14.9	12.3	3.4
Dividends, interest, and rent	\$ 33.4	\$ 34.1	\$ 34.8	\$ 34.5	\$ 31.4	\$ 31.5	\$ 28.9	\$ 26.8	\$ 24.5	\$ 22.9
Percent change	(2.0)	(2.0)	0.8	10.1	(0.5)	9.2	7.6	9.6	7.0	10.8
Transfer payments	\$ 27.8	\$ 26.6	\$ 25.1	\$ 22.3	\$ 21.0	\$ 19.8	\$ 19.1	\$ 18.4	\$ 17.5	\$ 16.3
Percent change	4.6	6.0	12.4	6.4	6.1	3.7	3.8	5.1	7.0	5.2

Note: Figures may not total due to rounding.

Source: Washington State Economic and Revenue Forecast Council - November 2004 forecast.

## Table 11A - Full-Time Equivalent Staff Comparison

### Budgeted Funds

Fiscal Years 1995 through 2004

Function	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
General government	9,004	8,867	8,761	8,637	8,510	8,416	8,179	8,228	8,024	8,438
Human services	32,964	32,909	33,080	32,884	32,587	32,003	30,665	30,201	29,823	29,490
Natural resources and recreation	6,245	6,275	6,307	6,190	5,955	5,921	5,910	6,057	6,079	6,532
Transportation	10,373	10,410	10,531	10,250	10,254	10,140	9,827	9,958	9,753	9,947
Education	46,491	45,802	45,139	44,081	42,623	41,426	40,448	39,238	38,116	37,484
<b>Total</b>	<b>105,077</b>	<b>104,263</b>	<b>103,818</b>	<b>102,042</b>	<b>99,929</b>	<b>97,906</b>	<b>95,029</b>	<b>93,682</b>	<b>91,795</b>	<b>91,891</b>

Notes: A Full-Time Equivalent (FTE) is one full calendar year of paid employment, or the equivalent of 2,088 hours (the number of available work hours in a year). It is not the number of employees on the payroll, nor is it the number of positions in state government. It is a computed average number of state employees based upon cumulative FTE staff months during one fiscal year or cumulative hours paid during one fiscal year.

FTE staff years can be computed two ways:

- (1) By accumulating all FTE staff months for a full year and dividing by 12.
- (2) By accumulating all paid hours for one full year and dividing by 2,088 (the available work hours in a year).

Figures include:

- Operating and capital FTEs.
- FTEs of nonbudgeted Higher Education funds.

Source: Washington State Office of Financial Management - Accounting Division.

## Table 11B - Full-Time Equivalent Staff Comparison

### General Fund State

Fiscal Years 1995 through 2004

Function	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
General government	3,022	3,030	2,904	2,925	2,874	2,870	2,763	2,874	2,769	3,212
Human services	17,167	17,701	17,398	17,132	16,122	16,242	16,159	15,593	14,878	13,424
Natural resources and recreation	2,226	2,066	2,189	2,157	1,902	1,787	1,637	1,842	1,773	2,289
Transportation	334	188	391	416	405	407	211	222	174	296
Education	19,297	18,512	18,555	18,464	17,944	17,681	17,358	16,846	16,391	17,936
<b>Total</b>	<b>42,046</b>	<b>41,497</b>	<b>41,437</b>	<b>41,094</b>	<b>39,247</b>	<b>38,987</b>	<b>38,128</b>	<b>37,377</b>	<b>35,985</b>	<b>37,157</b>

Notes: A Full-Time Equivalent (FTE) is one full calendar year of paid employment, or the equivalent of 2,088 hours (the number of available work hours in a year). It is not the number of employees on the payroll, nor is it the number of positions in state government. It is a computed average number of state employees based upon cumulative FTE staff months during one fiscal year or cumulative hours paid during one fiscal year. This data includes operating and capital FTEs.

FTE staff years can be computed two ways:

- (1) By accumulating all FTE staff months for a full year and dividing by 12.
- (2) By accumulating all paid hours for one full year and dividing by 2,088 (the available work hours in a year).

Source: Washington State Office of Financial Management - Accounting Division.

**Table 12A - Public School Enrollment Grades K-12 and Other**  
Average Annual Full-Time Equivalent Enrollment

Academic Years 1994-95 through 2003-04

Grades	2003-04*	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97	1995-96	1994-95
K-8	650,286	650,596	651,692	650,126	649,978	652,518	648,748	643,671	636,028	628,532
9-12	302,169	298,912	295,890	292,309	290,515	286,311	280,856	273,768	262,974	253,382
Private & Homebased	87	100	169	185	139	125	189	231	254	221
Summer	266	352	467	434	347	383	347	246	541	377
Running Start	9,342	8,814	8,305	7,938	7,467	7,001	6,251	5,510	4,452	3,695
UW Transition	105	71	43	40	38	41	43	41	40	40
<b>Total</b>	<b>962,255</b>	<b>958,845</b>	<b>956,566</b>	<b>951,032</b>	<b>948,484</b>	<b>946,379</b>	<b>936,434</b>	<b>923,467</b>	<b>904,289</b>	<b>886,247</b>

Notes: A Full-Time Equivalent student is defined as:

Kindergarten -- 4 classroom hours/day for 90 days or 2 classroom hours/day for 180 days.

Grades 1 through 3 -- 4 classroom hours/day for 180 days.

Grades 4 through 12 -- 5 classroom hours/day for 180 days.

Data may not add due to rounding

\*Preliminary data. Data not complete until final report is received in January 2005.

Source: Washington State Office of Financial Management - Forecasting Division (Office of the Superintendent of Public Instruction).

**Table 12B - Public Higher Education Enrollment**  
Average Annual Full-Time Equivalent Enrollment

Academic Years 1994-95 through 2003-04

	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97	1995-96	1994-95
Community and Technical Colleges System*	138,241	139,753	133,962	128,093	125,131	121,302	117,925	118,515	118,075	113,403
4 Year Institutions**	90,075	89,511	87,969	84,832	82,778	81,991	80,605	79,571	78,095	77,391
<b>Total</b>	<b>228,316</b>	<b>229,264</b>	<b>221,931</b>	<b>212,925</b>	<b>207,909</b>	<b>203,293</b>	<b>198,530</b>	<b>198,086</b>	<b>196,170</b>	<b>190,794</b>

Notes: A Full-Time Equivalent student is defined as:

Undergraduate student -- 15 credit hours per term.

Graduate student -- 10 credit hours per term.

\*Beginning in 1993-94, the Technical Colleges became part of the State Community and Technical College System (CTC), includes the Timber Worker Displacement program (TW), and the Workforce Training program (WFT).

Beginning in 1997-98, figures include Private Career College (PCC) enrollments.

\*\* Include all 4-year public institutions and branch campuses.

Source: Washington State Office of Financial Management - Forecasting Division.

## Table 13A - Value of Agricultural Production

Calendar Years 1994 through 2003 (dollars in millions)

	% Change										
	2003 Vs 2002	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Field crops	(4.5)	\$1,741.4	\$1,824.4	\$1,763.7	\$1,673.1	\$1,524.7	\$1,612.4	\$1,832.6	\$2,049.1	\$2,095.1	\$1,594.0
Fruit and nut crops	10.3	1,612.2	1,461.3	1,335.5	1,182.9	1,237.2	1,052.6	1,235.7	1,232.7	1,351.2	1,061.9
Vegetable crops	22.5	419.5	342.5	314.8	320.1	299.3	352.1	357.6	307.6	313.1	302.6
Berry crops	7.9	65.7	60.9	61.0	47.2	66.1	45.6	50.1	54.4	52.9	59.4
<b>Total Crops</b>	4.1	3,838.8	3,689.1	3,475.0	3,223.3	3,127.3	3,062.7	3,476.0	3,643.8	3,812.3	3,017.9
Specialty products (1)	(2.7)	507.7	522.0	589.2	623.7	587.9	579.4	569.7	575.7	640.7	648.4
Livestock and livestock products	7.4	1,448.2	1,348.8	1,576.0	1,516.0	1,546.3	1,537.4	1,444.1	1,457.4	1,395.9	1,454.9
<b>State Total</b>		\$ 5,794.7	\$ 5,559.9	\$ 5,640.2	\$ 5,363.0	\$ 5,261.5	\$ 5,179.5	\$ 5,489.8	\$ 5,676.9	\$ 5,848.9	\$ 5,121.2

Note: (1) Includes forest products, christmas trees, floriculture, nursery and other horticultural products, and mushrooms.

Source: United States Department of Agriculture (USDA), Washington Agricultural Statistics Service.

## Table 13B - Rank Order of Principal Commodities Value

Calendar Years 1994 through 2003 (dollars in thousands)

Commodities	% Change		2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
	Rank	2003 Vs 2002										
Apples	1	12.9	\$1,155,000	\$1,023,000	\$900,250	\$750,200	\$856,000	\$700,000	\$821,400	\$912,700	\$1,021,750	\$795,250
Milk	2	0.1	675,301	674,400	827,100	715,904	824,715	846,834	732,423	792,277	687,934	681,250
Wheat, all	3	4.9	521,163	496,873	423,681	443,369	345,299	414,218	560,608	755,680	742,500	525,508
Potatoes, fall	4	(4.6)	489,038	512,487	552,240	446,250	476,000	447,480	431,984	451,203	553,823	422,370
Cattle and calves	5	5.4	475,522	451,016	492,641	560,729	454,222	458,719	468,580	409,697	450,009	516,294
Hay, all	6	(8.5)	343,610	375,366	375,328	355,261	307,027	312,588	361,824	371,347	328,878	268,839
Nursery & greenhouse products (1)	7	4.8	313,000	298,533	288,399	288,432	282,211	273,793	262,620	245,000	245,000	240,000
Cherries, all	8	16.0	175,614	151,385	147,598	157,228	115,860	128,801	132,694	118,940	106,519	88,700
Onions, all	9	25.1	140,763	112,538	67,497	64,605	51,795	84,255	99,569	55,452	45,940	62,702
Grapes, all	10	(2.6)	131,112	134,605	138,195	126,760	114,400	105,276	124,410	57,744	73,676	57,600
Pears, all	11	10.9	129,152	116,437	108,627	105,995	121,204	107,886	123,670	125,768	118,166	97,377
Forest products, farm (2)	12	(14.3)	120,000	140,000	171,000	225,000	235,000	247,000	255,000	300,000	338,000	353,000
Aquaculture (including trout eggs & fish)	13	(6.1)	84,239	89,690	83,271	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sweet corn, all	14	6.4	76,900	72,247	66,268	70,261	64,103	65,752	61,905	57,584	69,221	53,053
Broilers (3)	15	15.1	74,904	65,078	81,704	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hops	16	(11.7)	73,510	83,288	91,911	94,591	80,930	73,457	89,306	93,953	99,290	96,775
Eggs	17	26.9	70,360	55,460	62,544	59,759	59,031	69,023	75,024	89,961	93,241	83,403
Christmas trees	18	0.0	60,000	60,000	59,000	60,000	60,000	48,000	45,000	45,000	42,000	42,000
Corn, silage	19	(13.7)	45,750	53,040	48,360	40,755	41,470	43,500	45,430	37,700	34,344	30,420
Asparagus	20	(3.6)	43,277	44,893	48,910	54,876	51,216	61,217	64,204	63,312	58,659	56,304
Mint oil	21	(4.6)	41,280	43,254	35,740	34,309	37,236	54,501	53,066	54,413	51,547	44,001
Corn, grain	22	4.8	39,585	37,772	26,752	46,805	41,940	46,550	54,150	69,930	66,861	52,448
Barley	23	(21.7)	38,756	49,504	41,160	66,199	50,882	53,404	80,630	72,019	59,299	28,527
Red raspberries	24	(1.2)	36,554	36,985	37,784	25,888	48,291	22,664	28,020	30,459	35,182	39,423
Kentucky bluegrass seed	25	9.0	20,625	18,915	22,875	25,840	18,160	17,500	17,466	17,457	13,694	12,864
Green peas, processing	26	48.1	20,439	13,804	18,148	24,638	22,588	26,921	25,342	20,408	30,246	33,805
Haylage	27	12.4	20,250	18,011	26,075	21,924	43,763	36,685	N/A	N/A	N/A	N/A
Lentils	28	(2.7)	16,562	17,024	12,032	12,495	11,993	9,877	14,495	24,784	34,449	25,440
Mushrooms	29	(13.2)	14,497	16,711	14,160	15,307	15,307	15,751	14,731	N/A	N/A	N/A
Alfalfa seed	30	(7.1)	13,260	14,280	13,800	16,875	18,360	19,320	13,400	N/A	N/A	N/A

Note: (1) Includes floriculture.

(2) Value of forest products sold from operations meeting the USDA farm definition.

(3) Washington Fryer Commission total weight multiplied by USDA US average bird liveweight price per pound.

N/A indicates data not available.

Source: United States Department of Agriculture (USDA), Washington Agricultural Statistics Service.



## Table 14A - International Trade Facts

### All Washington Ports

Calendar Years 1994 through 2003 (dollars in millions)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Exports (1)	\$ 41,776	\$ 41,730	\$ 42,935	\$ 42,100	\$ 46,513	\$ 48,780	\$ 47,685	\$ 40,380	\$ 34,986	\$ 35,141
Imports	55,762	54,059	58,144	64,991	59,676	55,604	53,193	46,849	47,972	46,232
Trade balance	(13,987)	(12,329)	(15,209)	(22,891)	(13,163)	(6,824)	(5,508)	(6,469)	(12,986)	(11,091)
Two-way trade	97,538	95,789	101,079	107,091	106,189	104,384	100,878	87,229	82,958	81,373

Note: (1) These figures indicate total international trade from the state of Washington, including bonded shipments to other states and Canada (includes Boeing Company figures).

Source: Washington State Department of Community, Trade and Economic Development (U.S. Census Bureau).

## Table 14B - Major Export Trading Partners

Calendar Years 1994 through 2003 (dollars in millions)

Partners	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Japan	\$ 7,988	\$ 6,865	\$ 5,938	\$ 6,837	\$ 7,868	\$ 8,754	\$ 9,871	\$ 9,026	\$ 8,719	\$ 7,941
Canada	7,141	6,414	6,525	7,210	6,904	6,836	7,131	6,230	6,051	6,098
Korea	3,014	3,712	3,605	3,445	2,923	1,837	4,290	4,609	4,504	3,147
China	2,968	3,032	3,445	2,540	2,453	3,852	2,273	2,091	1,602	2,260
Taiwan	2,503	1,464	1,970	2,076	1,278	2,409	2,246	2,330	2,422	1,766
Singapore	2,186	2,459	2,770	690	1,434	1,745	1,968	1,545	1,353	1,670
Netherlands	2,027	914	834	1,518	1,482	877	1,216	1,052	802	495
United Kingdom	1,369	1,165	2,721	3,203	4,312	4,451	4,551	1,788	1,299	2,204
Australia	1,278	2,124	481	517	617	576	599	702	347	N/A
Italy	1,097	1,009	98	138	771	115	239	397	355	N/A
Ireland	903	617	586	492	422	100	80	50	83	N/A
Thailand	796	223	619	578	711	943	1,347	1,194	563	382
Germany	746	983	1,728	1,855	2,043	2,278	1,497	1,120	949	684
Hong Kong	696	652	824	785	861	1,429	1,331	1,724	1,328	1,115
France	597	1,883	1,157	950	1,337	836	250	299	276	345
Malaysia	277	939	742	414	529	1,469	1,354	593	578	1,014
Sweden	245	249	238	866	876	365	134	154	100	57
Russia	167	99	112	313	348	1,084	330	300	378	514
Spain	154	211	376	1,010	927	43	167	126	118	341
Saudia Arabia	38	113	1,086	624	1,257	2,058	892	144	41	41

Note: 1994-1999 statistics based on all Washington State ports, all methods of transportation.

N/A indicates data not available.

Source: Washington State Department of Community, Trade and Economic Development (U.S. Census Bureau).

## Table 14C - Major Import Trading Partners

Calendar Years 1994 through 2003 (dollars in millions)

Partners	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Japan	\$ 15,917	\$ 15,658	\$ 17,074	\$ 20,022	\$ 19,622	\$ 19,303	\$ 20,833	\$ 18,877	\$ 20,507	\$ 20,441
China	13,955	12,155	9,875	10,651	9,288	8,428	7,612	6,655	6,578	5,845
Canada	11,425	10,389	12,659	14,690	11,961	10,429	9,663	8,107	6,810	6,270
Korea	2,788	2,637	2,558	2,793	2,507	2,337	2,354	2,124	2,568	2,536
Taiwan	2,160	2,382	3,200	4,021	3,845	4,105	3,217	3,062	3,569	3,338
Hong Kong	882	913	1,634	1,345	1,116	1,183	1,380	1,237	1,091	1,106
United Kingdom	842	1,256	2,342	1,645	2,478	2,172	1,744	836	793	1,096
Thailand	813	841	1,015	1,332	1,152	1,195	1,179	977	980	963
Malaysia	690	724	772	958	808	816	599	669	715	623
Indonesia	627	879	880	781	739	762	647	600	669	520
Singapore	507	356	302	322	325	291	237	306	431	425
France	472	750	859	726	736	341	121	162	198	642
Philippines	405	550	1,011	1,089	1,070	813	381	380	498	485
Australia	395	738	663	904	841	714	844	695	536	396
Germany	356	497	489	496	444	397	311	305	251	159

Note: Based on all Washington State ports, all methods of transportation.

Source: Washington State Department of Community, Trade and Economic Development (U.S. Census Bureau).